



## BUREAU OF MUNICIPAL RESEARCH

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Long an advocate of responsive and responsible government, the Bureau has gained wide recognition for the high calibre of its quarterly *Civic Affairs*, its monthly *BMR Comment*, its information and advisory services, and the participation of its staff in the public discussion of issues.

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## CIVIC AFFAIRS

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*Land Banking:  
Investment  
in The Future*

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## TABLE OF CONTENTS

LAND BANKING: INVESTMENT IN THE FUTURE .....	6
THE CANADIAN LAND DEVELOPMENT FRAMEWORK .....	14
THE PUBLIC LAND BANKING RATIONALE .....	22
Public land banking would facilitate planning and help control urban development .....	23
Public land banking would limit rising land, housing and public service costs .....	30
Public land banking would promote more equitable distribution of profits from land .....	36
The argument against public land banking .....	39
PUBLIC LAND BANKING – SOME POLICY QUESTIONS .....	42
What are the goals of the policy? .....	42
How should a public land banking policy be administered? .....	43
What land and how much land should be purchased and banked? .....	45
How should the public land bank be financed? .....	45
Should the land be sold or leased? .....	46
How much will the land sell (or lease) for? .....	46
How can speculation after the initial transaction be avoided? .....	46
How can the secrecy needed for real estate transactions be reconciled with the democratic desire for openness and public scrutiny of government actions? .....	47
CONCLUSIONS AND RECOMMENDATIONS .....	47

## *This Bulletin in Brief-*

The term "land bank" has recently entered the popular vocabulary — in newspaper editorials, journal articles, and political speeches. What is land banking? Why might it be needed? What are its advantages and disadvantages? And what problems must be dealt with by land banking policy-makers? This issue of *Civic Affairs* is devoted to discussing these questions.

The study is concerned with public land banking for urban development, i.e., large-scale assembly of land by the public sector in advance of urban development. The basic idea, according to its advocates, is that land can be bought relatively cheaply by the public sector before prices have been inflated by urbanization and speculation. It can be purchased before land use patterns have already been set and can be planned and developed with the maximum possible assurance that the ultimate development will be "in the public interest".

Urbanization in areas like southern Ontario has been accompanied by many problems, several of which stem from the relative scarcity of urban land and from the roles generally adopted by the private and public sectors in the land development process. This study documents some of the shortcomings of the present urban land development process and suggests that public land banking could be used effectively in Ontario to alleviate some of these problems.

The arguments in favour of public urban land banking are presented under three broad headings: planning, land and housing costs, and social equity. Foreign and domestic examples of public land banks illustrate the discussion throughout. The philosophical and practical objections to land banking are discussed.

Finally, some of the major operational problems to be dealt with by policy-makers in Ontario are broadly outlined. Among these are policy goals, administrative structures, financing principles, pricing schemes, and disposal policies.



# Land Banking: Investment in The Future

Managing urban development so that it benefits the greatest number of people is one of the major issues of the 1970's. Several recent Bureau publications have dealt with aspects of this problem – most notably, Bureau reports on providing urban open space, on restructuring local government to provide better services, and on building new communities in southern Ontario. This report deals with another critical aspect of urban development, *land*. Obviously, all development occupies land; consequently, the management and disposition of land is a key factor of urban and regional growth.

Ironically, in this land-rich country, land is becoming one of the scarcest urban resources in Canada. It has been well documented that urban areas are growing faster than non-urban areas; and that larger urban areas are growing faster than small urban centres.<sup>1</sup> Rather than spreading out across the immense Canadian landscape, the urban population is tending to concentrate in relatively small areas. As a result, in many areas there is intense demand and competition for urban land. This has led to escalating land prices and, coupled with the traditional attitudes toward land development (discussed in greater detail below), to increasing pressures on present urban plans and planning techniques.

Our research in Part II of this Report [*Urban Canada: Problems and Prospects*] offers an explanation for this failure to deal effectively with urban problems. We have found that their interdependence results largely from the fact that they are generated by the process of urbanization itself. *The growth of large cities leads to competing demands for the common feature of all cities, scarce urban space, driving core prices upward and households outward. Transportation, pollution, and poverty problems flow from this.* Contained within the process of urbanization, then, are the seeds of the majority of the problems found in the city.<sup>2</sup>

The economic, social and planning consequences of scarce urban land have been discussed by a wide variety of urban authorities. We only highlight the major ones here. As the passage from the Lithwick reports points out, the demand and competition for scarce urban space leads to escalating urban land prices. Escalating land prices, in turn, lead to escalating housing costs. As the Task Force on Housing and Urban Development pointed out in 1968:

If the cost of mortgage money has been the largest single factor in rising housing costs, there is no question that the cost of land has been the second most important factor. While over-all housing costs in Canada rose by about 80 per cent between 1951 and 1968, the price of serviced land sky-rocketed by almost 240 per cent in the same period. In areas like Metropolitan Toronto, where land in many cases accounts for up to 50% of the overall price of a house, it has become the number one problem.<sup>3</sup>

An Urban Development Institute (UDI) report on the Toronto land market states that rising housing costs mean that a larger and larger segment of the urban population will find it increasingly difficult, if not impossible to afford to purchase its own housing.<sup>4</sup>

Escalating land costs also lead to escalating costs for such necessary public services as transportation, recreation, and education – all of which “consume” large chunks of land. A large part of the increased costs is, of course, reflected in tax increases.

In addition to raising over-all costs of public services, increased land costs may reduce planning and development options. For example, a particular transportation route may be chosen not because it is the best route, but because it is the cheapest one; yet it may be less efficient from a transportation point of view and it may have unfortunate side effects. Rising land costs may even eliminate the provision of some services altogether; for example, a public recreation area may not be purchased and developed simply because it is too expensive.

Beyond this, the mere scarcity of urban land itself – apart from the increased land costs – may not only reduce the planning and development options (for example, the optimum site for a school, or a park, or family housing, or an expressway, may already be used for another purpose); it may also effectively prevent the provision of a service because no appropriate site is available.

If these problems occur generally on a national scale they are particularly severe in Ontario – the most heavily urbanized province in the country (with 80.4% of its 1966 population being classified as “urban”, compared to the national average of 73.6%)<sup>5</sup> and most particularly in the highly and rapidly urbanizing southern part of Ontario. The following are some of the major problems which are directly related to urban land in that area. *Land costs have skyrocketed.* Land costs for new National Housing Act (NHA) financed, single-detached dwellings in Toronto increased by 27% between 1969 and 1971<sup>6</sup>; and steady and projected increases in land costs are being experienced in other Ontario cities, including Kingston, Kitchener, London, Oshawa and Ottawa.<sup>7</sup>

*Housing costs are high,* with land becoming an increasingly important item in the total cost of housing. For example, of all Canadian metropolitan areas, Toronto has the highest average cost for new, single-detached dwellings financed under the NHA \$32,567 in Toronto (1971), compared with a national metropolitan area average of \$23,569.<sup>8</sup> Land costs for these houses in Toronto average \$12,294 or 38% of the total

<sup>3</sup> Report of the Federal Task Force on Housing and Urban Development (Ottawa: Queen's Printer, 1969), p. 37.

<sup>4</sup> Urban Development Institute Ontario, York Region Committee, Brief on “Design for Development” to the Regional Municipality of York (Toronto, 1972), p. 14.

<sup>5</sup> Canada Yearbook 1970-71, op. cit., p. 221.

<sup>6</sup> Computed from Central Mortgage and Housing Corporation, Housing Statistics 1970 (Ottawa: Central Mortgage and Housing Corporation, 1971), Table 86, p. 71 and Central Mortgage and Housing Corporation, Housing Statistics 1971 (Ottawa: Central Mortgage and Housing Corporation, 1972) Table 87, p. 71.

<sup>7</sup> Letters from regional offices of Central Mortgage and Housing Corporation.

<sup>8</sup> Housing Statistics 1971, op. cit., Table 87, p. 71.

<sup>1</sup> Leroy O. Stone, Urban Development in Canada (Ottawa: Dominion Bureau of Statistics, 1968), and Canada Yearbook 1970-71 (Ottawa: Dominion Bureau of Statistics, 1971), pp. 221ff.

<sup>2</sup> N.H. Lithwick, Urban Canada Problems and Prospects (Ottawa: Central Mortgage and Housing Corporation, 1970), p. 15. Bureau emphasis is added.



housing costs, compared with a national metropolitan average of \$5,708 or 24%.<sup>9</sup> And the land cost component in these houses in Toronto has increased from being 34% of the total housing costs in 1969 to 38% in 1971.<sup>10</sup>

There has been a *growing gap between housing purchase costs and ability to pay*.<sup>11</sup> According to an Urban Development Institute land market study of the Toronto region, "there has been a wider gap between the average family income and the minimum required family income for home purchase . . . the average house cost has increased at a faster rate than the increases in wages . . ."<sup>12</sup>

The rising cost of land has *increased the cost of public services* such as schools, parks and roads; and it has also meant that *many areas of Toronto are inadequately served*. For example, the Bureau bulletin, *Urban Open Space: Luxury or Necessity?* documented the lack of one of these services, parkland, in many parts of Toronto.<sup>13</sup>

*Prime agricultural and recreational land has been prematurely converted to residential and other uses.*<sup>14</sup>

*Speculation in land has been rampant* in a number of areas.

At least 10,000 acres of Pickering Township is being held by speculators hoping that the rapid increase in land values in Metro is bound to spill over into Pickering, according to the township's planning director . . .<sup>15</sup>

Speculation was one of the problems identified by the Toronto-Centred Region Plan (discussed below).<sup>16</sup>

Parts of the region are plagued by *unstructured urban sprawl* which leads to inefficient land use patterns, which result in high costs for inefficient servicing.<sup>17</sup> And other parts of the region are undergoing extreme *pressures to convert low-rise residential areas into high-rise ones*. This can be disruptive and is not necessarily — from social, economic and regional perspectives — the best form of development to encourage.<sup>18</sup>

The Toronto-Centred Region Plan was drawn up by the Province in an effort to direct and co-ordinate the future development of the region stretching from Hamilton to Cobourg and from the lakeshore to north of Lake Simcoe. It was a response to the

accumulation of problems resulting from rapid population growth accompanied by rapid urbanization and to projections of even more extensive urbanization. The Plan summarizes the past trends: increasing concentration of growth in and to the west of Metropolitan Toronto; western suburbanization, with some unstructured sprawl and premature removal of land from agricultural and recreational uses for purposes of low-density residential use and speculation; intensified high-rise development close to the core; slow growth in the north and east; and extensive development of summer residences in surrounding recreational areas.

As for the future, the population of the region is expected to more than double in the next 30 years — from 3.6 million in 1966 to about 8 million in the year 2,000.<sup>19</sup> In spatial terms, this means that in the main urbanizing region (Zone I, along the lakeshore from Hamilton to Oshawa), something like 250 to 430 square miles of land will be converted to urban uses.<sup>20</sup> An urban area equal to between one and two new Metro Torontos will be created in 30 years! As the Plan indicates, this daunting prospect demands greater public responsibility for and intervention in regional development.

What kind of intervention is possible and desirable? As we show in the following section on the Canadian development framework, the statement of a regional plan is admirable, but not enough. Other actions are necessary. Many urban authorities faced with the problems associated with urbanization and scarce urban land, have advocated large-scale *public land banking* — that is, large-scale land assembly by the public sector in advance of development. The basic idea is that land can be bought relatively cheaply by the public sector before prices have been inflated by urbanization (with its demand for urban land) or by speculation. Land can be purchased before land use patterns have been set by decisions already taken by private developers and can be planned and developed with the maximum possible assurance that the ultimate development will be "in the public interest". In addition, public land banking provides a way for the public sector to reap the benefits which result from public investment in services (such as water and transportation). At present, most of these benefits are reaped by private land owners. As we shall see, a variety of land banking schemes are possible. For example, the land can be assembled by the municipal, regional, provincial or federal government; it can be assembled and managed by a government department or a crown corporation; it can be leased by the public sector to builders and/or individuals, or it can be sold; it can be sold at market value, below market value but above cost, or it can be sold at cost; and so on.

Support for large-scale public land acquisition and land banking in one form or another has come from many quarters — federal and provincial task forces on a variety of problems; government policy statements; and individual planners and urbanologists. Here is a sampling of Canadian support.

The Special Committee on Farm Income in Ontario (1969) recommended increased public acquisition of land to be rented to farmers for agricultural purposes:

<sup>9</sup> Computed from *Ibid.*

<sup>10</sup> Computed from *Housing Statistics 1970*, *op. cit.*, Table 86, p. 71 and *Housing Statistics 1971*, *op. cit.*, Table 87, p. 71.

<sup>11</sup> The Government of Ontario, *Design for Development: The Toronto-Centred Region* (Toronto: The Queen's Printer and Publisher, May 5, 1970), p. 12.

<sup>12</sup> Urban Development Institute Ontario, *York Region Brief*, *op. cit.*, p. 14. This idea is corroborated by A. Derkowski, "The Toronto Housing Market in the Sixties", *Real Estate Institute of Canada Journal* (November, 1971), p. 4. "It is obvious that these house prices have risen not only in absolute terms but in relation to wages."

<sup>13</sup> Bureau of Municipal Research, *Urban Open Space: Luxury or Necessity?* (Toronto: Spring, 1971), pp. 7-11.

<sup>14</sup> *The Toronto-Centred Region*, *op. cit.*, p. 2, 12. G. W. R. Bryant, "Land Speculation: Its Effects and Control", *PLAN* (Volume 5, Number 3, 1965), p. 111.

<sup>15</sup> Hugh Windsor, "Pickering — Its fate and its land prices are in the air", *The Globe and Mail* (Toronto, December 10, 1971), p. 31.

<sup>16</sup> *The Toronto-Centred Region*, *op. cit.*, p. 2.

<sup>17</sup> *Ibid.*, pp. 2, 13.

<sup>18</sup> *Ibid.*, p. 12.

<sup>19</sup> The Toronto-Centred Region projections are much lower than the Lithwick projection of 6 to 6-1/2 million population in Toronto alone by the year 2000.

<sup>20</sup> The spatial estimates are based on a population increase in Zone I of 3 million (from about 2.7 to 5.7 million) and a gross development density of 7,000 — 12,000 people per square mile (a density estimate obtained from a TCR analyst). Lithwick's residential land projection for Toronto was much higher: a population of 6 million in Toronto, meaning between 400 and 650 square miles of residential land would be added to Toronto's area alone in the next 30 years. Lithwick, *Urban Canada*, *op. cit.*, p. 156.

If the A.R.D.A. (Atlantic Region Development Act) programme is not extended to meet these requirements, the provincial government should establish an Ontario Land Corporation on a cost-sharing basis with the Federal Government. Most of the land purchasing programmes of the Ontario Government could be centralized under this Corporation. . .

Land purchased should be leased to qualified farmers under long term leasing arrangements . . .

(I)t could exchange land with farmers to meet their needs . . .

The Corporation would also purchase land which may eventually be transferred to non-farm uses. It could ensure that such land is made available to farmers in the meantime under adequate leasing terms until the time is reached for transferring the land to a different use. This policy would operate within the framework of long term land use plans . . .<sup>21</sup>

The Hellyer Task Force on Housing and Urban Development (1969) was favourably impressed by land banking results in Saskatoon and recommended federally-supported municipal land banking to lower land (and housing) costs and to improve urban planning.

Important as efforts to curb land speculation may be, the Task Force believes the root cause of rising land costs goes much deeper. To put it simply, it believes that the present system for assembling and servicing land in much of urban Canada is irrational in concept and inefficient in practice . . .

On the basis of all the evidence and impressions before it, the Task Force believes that municipal assembly and servicing of land would produce major reductions in land costs in both the short and long-term while encouraging and assisting effective urban planning. Therefore, in summary, the Task Force recommends that:

Municipalities or regional governments, as a matter of continuing policy, should acquire, service and sell all or a substantial portion of the land required for urban growth within their boundaries.

The federal government should make direct loans to municipalities or regional governments to assist them in assembling and servicing land for urban growth.<sup>22</sup>

The Lithwick Report advocated the development of new satellite communities, linked to major metropolitan areas by high speed transportation. Lithwick identified public land acquisition and ownership as one advantage of this "preferred urban future policy option".

The advantage of the new community is that the public sector can own the land. Even sold at market value, it will be lower in price than land in the metropolitan area. Increments in price can be used as an important, highly elastic source of public revenue . . . In other words, the new town can minimize the costs, while access to the metropolitan area can maximize benefits, the net effect is an approach to optimality over time.<sup>23</sup>

The Dennis Report on Low-Income Housing analyzed federal programs and recommended large scale public land banking to lower land costs, to ensure the availability of sites for low-income housing and to facilitate urban planning:

A key problem will be assuring an adequate supply of suitable land for a social housing program. We noted above that most of the land in the immediate path of development is held by speculative builder developers and that the land provided under the existing programs has been marginal.

To deal with that situation and with rapidly increasing land prices, a large scale land banking program is recommended. It would entail the acquisition of a sufficient supply of land to meet all urban residential requirements for a ten year period, although the land would be marketed over a longer period of time (at least twenty years). The public land banks would market from one quarter to one half of the land required in any given year and thereby set the pricing pattern. They would be in a position in any given year to flood the market and depress prices.

Land acquisition would occur both in the centre city and in developing suburbs, although most of the land would be suburban. Use could be made of existing governmental holdings.

The program would be combined with changes in the tax system, removing hidden subsidies for land development and imposing heavier taxes on land development profits and thereby reducing speculative pressures and returning to the public domain profits resulting solely from the process of urbanization.

The land banks could also provide the sites needed for social housing projects. Large scale public planning of new neighbourhoods, integrated housing for various income levels and other mixed uses would be facilitated. Municipalities would have to plan for future housing needs, rather than merely react to developer proposals.<sup>24</sup>

Under the National Housing Act, the federal government has provided assistance to provincial governments for land assembly for housing. Minister of State for Urban Affairs, the Hon. R. Basford, explained the expansions (and limitations) of the proposed 1972 NHA amendments to the land assembly programs:

Under the National Housing Act, the federal government provides assistance for land assembly programs for housing purposes through joint projects with the provinces and through low cost loans.

With the cost of land, particularly in urban areas a major and growing factor in the overall cost of housing, government development of serviced land for housing - limiting the excess profits that often occur from land held privately for speculative reasons - is a matter of high priority.

The proposals contained in the 1972 National Housing Act are designed to strengthen and continue public activity in land assembly for housing and related uses. They are framed to provide a basis for longer term provincial and municipal planning, and to enable land assembly programs to become an instrument for new community development . . .

The principal purpose of the proposals is to provide serviced land for housing and related purposes. It is not intended, therefore, that the Land Assembly

<sup>21</sup> Special Committee on Farm Income in Ontario, *The Challenge of Abundance* (Toronto, 1969), p. 59. The Province of Saskatchewan brought forth a bill in the winter of 1971-72 that would create a provincial land bank of agricultural land which would be leased to farmers.

<sup>22</sup> *Report of the Federal Task Force on Housing and Urban Development*, op. cit., pp. 39, 43.

<sup>23</sup> Lithwick, *Urban Canada*, op. cit., p. 63. See also p. 231.

<sup>24</sup> Michael Dennis and Susan A. Fish, *Programs in Search of a Policy: Low Income Housing in Canada* (Toronto: A. M. Hakkert, 1972) pp. 20-21.

Program will be available for the acquisition of land for public, commercial or industrial use, except where it forms an integral part of a residential community.<sup>25</sup>

These proposed 1972 amendments were not passed because of the intervention of the national election. On January 30, 1972, the Hon. Ron Basford introduced new, 1973 amendments to the National Housing Act. In discussing these amendments, the minister reiterated the importance that the federal government places on dealing with rising land prices and availability of serviced land for future development and on developing, in consultation with other levels of government, a comprehensive land policy.<sup>26</sup> The 1973 amendments include several changes in land assembly policy. The major ones are the addition of a new communities program; extension of the land assembly program; and aspects of the neighbourhood improvement program. Under the New Communities section, the federal government is authorized to participate in joint new community projects and to share up to 75% of the cost (and ultimate profits or losses) of acquiring, planning, and servicing the site. The federal government is also authorized to make loans to the provinces (or their designated agencies) of up to 90% of the cost of acquiring, planning and servicing the sites of new communities. (50% of the loan used for planning or acquiring land for community social facilities may be forgiven.) In both cases, the province must have an overall plan for urban growth. The amendments would authorize the expenditure of up to one hundred million dollars for federal participation in joint projects. (The minister has indicated a federal commitment of five hundred million dollars over the next five years.)

The 1973 amendments would extend the land assembly program to enable CMHC to undertake projects with the provinces which involve the acquisition and development of land which is not solely for housing; and to enable CMHC to make loans to a province, municipality, or agency, to acquire and service land that is not solely for housing purposes (with a term of 25 years; or 50 years if the land is to be leased for housing). No funds are specifically designated in the legislation.

Finally, it appears that some money would be made available to municipalities, through agreements with the provinces, for the acquiring and clearing of land for open space, and medium and low-density housing for individuals or families of low and moderate incomes in designated neighbourhoods. Contributions of up to 50% of these costs are authorized and lesser contributions are authorized for purchases of land for other purposes within the designated neighbourhoods or land in other parts of the municipality. Loans are also authorized.

In sum, it appears that the federal government is tying the bulk of its new land assembly provisions and funding into new community development. Existing municipalities will derive more limited benefits. The federal policy is careful to operate through the provinces and continues to see its role as primarily a banker's one. The minister has stated:

The provision of federal money alone, however, cannot resolve land problems in Canadian cities. The primary instruments to deal with these problems are

<sup>25</sup> National Housing Act Amendments 1972, Explanatory Notes on a Bill Introduced in the House of Commons by Hon. R. Basford, Minister of State for Urban Affairs (June 12, 1972), pp. 23, 24.

<sup>26</sup> Hon. R. Basford, 1973 National Housing Act Amendments, Explanatory Notes on a Bill Introduced in the House of Commons, January 30, 1973, pp. 2-4; *Land and New Communities* (Ottawa: Federal-Provincial Conference on Housing, January 22-23, 1973), *Remarks* (Toronto: Annual Conference, Housing and Urban Development Association of Canada, January 29, 1973), p. 9ff.

provincial and municipal. They include the provincial/municipal powers of land use planning and regulation, provincial policies affecting the ability of municipalities to extend services to new residential land and to redevelop land, provincial policies on regional planning, regional development and regional government, municipal property tax systems, and the provincial power to regulate commerce in land. I believe all provinces recognize the need to bring these policy instruments into sharper focus on the problem of providing sufficient land at reasonable prices.<sup>27</sup>

[The amendments are still proposed ones.] Historically, it should be noted, however, that the NHA has had provisions for land assembly since 1949. But, as the Dennis Report points out, over the last 20 years funds for land assembly purposes amounted to less than 2% of the amount lent for housing under the NHA, and the program has not been used to control housing prices, and has even had the effect of supporting them.<sup>28</sup> Between 1950 and 1970 only about 25,000 acres (less than 3% of the total urban growth in that period) was assembled under the land assembly provisions of the NHA — and much of this was assembled in the 1950's.<sup>29</sup>

The Government of Ontario has expressed interest in multi-purpose, urban land banking. On presenting the 1971 Ontario Budget, Honourable W. Darcy McKeough, provincial treasurer, noted:

*Ontario Land Acquisition Corporation.* In this budget, I have set aside \$20 million for a new land bank program by the Province. This will be the initial funding of the new Ontario Land Acquisition Corporation. Its purpose will be to acquire land for future public use, particularly in and around urban centres and recreation areas. With such a land bank program, the Province will be in a better position to implement its policies in the areas of regional development, urban development, recreation, transportation and communications and housing. The Corporation will also serve as a vehicle to co-ordinate land use planning and research as well as the land acquisition programs now undertaken in a number of departments. Over the years the Corporation will require greatly increased finances from the Province as it builds up a large land holding. We intend to set aside the maximum resources possible for this purpose and thereby preserve for future generations of Ontarians an adequate stock of public land in every part of the province.<sup>30</sup>

Unfortunately, the Ontario Land Acquisition Corporation never was set up; the \$20 million was not used on an urban land bank; in the 1972 Ontario Budget no money was specifically ear-marked for multi-purpose urban land banking; and no more detailed policy statements on land banking have been issued.

Land banking is, obviously, not a new idea in Canada. The crown reserves which were held back from township grants in the early years of the settlement of Upper Canada were apparently a form of land banking.<sup>31</sup> More recently, several Canadian cities, (including Saskatoon and Regina) have operated land banks for a number of years. The government of Ontario — like other provinces and the federal government —

<sup>27</sup> Basford, *Land and New Communities*, op. cit., p. 7.

<sup>28</sup> Dennis and Fish, op. cit., p. 13.

<sup>29</sup> William A. Hamilton, "Public Land Assembly in Canada" in Peter Spurr, *Preliminary Land Study, Main Report* (Ottawa: Policy Planning Division, Central Mortgage and Housing Corporation, 1971), pp. 22ff.

<sup>30</sup> *Ontario Budget 1971*, p. 221.

<sup>31</sup> Lillian F. Gates, *Land Policies of Upper Canada* (Toronto: University of Toronto Press, 1968), pp. 51ff and 160ff.



still holds vast tracts of land (much of it undeveloped) and, like many private businesses, it buys up land in advance of its own needs. The government also buys land ahead of actual development for public services such as highways. The government of Ontario, through the Ontario Housing Corporation, assembles and holds large tracts of land to be developed for low-income to moderate-income housing projects. For example, as of June, 1972, OHC held some 13,450 acres of land for its land development activities. And, more recently, the provincial government announced its intention to expropriate 25,000 acres of land in North Pickering for eventual development as a new town of 200,000 adjacent to the proposed second airport north east of Metro Toronto.<sup>32</sup>

But it is obvious that public land assembly is still largely a fragmented activity — the Ministry of Transportation and Communications buys highway rights of ways; and the Ministry of Natural Resources buys parkland. OHC buys land for subsidized housing, and so on. The Pickering assembly, although its details have still not been made public, may become a model for further provincial activity in multi-purpose, urban land banking, or it may be an isolated event. No comprehensive statement has been made on an urban land banking policy.

This Bulletin examines the idea of land banking, looks at its advantages and disadvantages, and analyzes some of the operational considerations that must be dealt with in a land banking policy. Before doing this, however, we must briefly outline the context of that policy — the existing Canadian Land Development Framework.

#### THE CANADIAN LAND DEVELOPMENT FRAMEWORK

The urbanization problems that were discussed earlier are aggravated by (many would argue, largely caused by) prevailing attitudes toward the respective roles of the private and public sectors in land ownership, land-use planning, and land development. Any revisions to the land and urban development process will have to take these attitudes into account.

Our society is built upon private property. In considering changes in the laws and institutions involving land, this fact cannot be ignored . . .

Those historical factors which encouraged land ownership in the past have contributed to many of our attitudes towards land ownership and control today. Many still believe that land and property ownership are important guarantees of individual freedom, and that ownership is something that should be pursued in itself.

In the opinion of this Committee, the opposite is true in our modern society.<sup>33</sup>

This Committee on Farm Income in Ontario went on to recommend fundamental changes in present farmland arrangements. In the Bureau's opinion they were quite correct to recognize and underline the popular attitude towards the concept of "private property" before suggesting changes. The sanctity of private property has arisen from historical circumstances in which an individual's status, wealth, and even political power derived from the ownership of land. In a very real sense an individual's freedom did depend on the ownership of property. This, of course, is no longer the case for the majority of Canadians. Most Canadians no longer depend on the

<sup>32</sup> Bureau of Municipal Research, "Land Acquisition for the North Pickering Project" BMR COMMENT # 138 (Toronto: October 22, 1972).

<sup>33</sup> Special Committee on Farm Income in Ontario, *op. cit.*, pp. 52, 53.

land for their livelihood; they can vote<sup>34</sup> and hold office whether or not they own land; and their status depends more on their jobs and education than on their landholdings. But the old attitudes persist.

Many people have coupled the idea of the innate virtue of owning private property with an attitude that the owner should be allowed to do what he wants with the land, unfettered (to the greatest possible extent) by public regulations and control. As another Bureau report pointed out,<sup>35</sup> property should be regarded as a bundle of rights, with the owner of a piece of land or property owning only *some* of these rights. The State has always retained some rights and has attached many conditions to the ownership and development of land. Nevertheless, the popular conception is that private ownership means, or should mean, unencumbered ownership. This, of course, colours public policy and action by making government reluctant to interfere with land ownership or intervene in land development.

Two attitudes closely associated with land ownership in Canada are (1) that the owner has a right to make a profit from his land<sup>36</sup> and (2) that the supply of land is unlimited. The first of these, the individual's inherent right to make a profit from land, was sharply underlined in a recent controversy over expropriation of land for a new community adjacent to a second airport north of Toronto:

a member of the POP [People or Planes] legal Committee, said yesterday it goes against everything that is Canadian to take away the landowner's right to make his speculative profit only to give that benefit to others.<sup>37</sup>

This attitude toward the right to speculative profit from land extends from the young couple buying an old farm beyond the urban fringes to large-scale land speculators wheeling and dealing in land trading:

Best of all, the value of the land is increasing by 20 per cent each year, making it a good speculative investment . . .

"We bought here because it's a very progressive area and good for speculative buying," Netta, who is 28, says. "We'll probably sell it eventually because of the value and move to a similar area."<sup>38</sup>

The largest land holder is Runnymede Development Corporation, headed by Joseph Tanenbaum. Mr. Tanenbaum says his company owns 3,000 acres in Pickering . . .

"It doesn't matter where you go, you make money on land," Mr. Tanenbaum said. People are buying land at \$8,000 an acre beside land he purchased eight years ago for \$600.

Mr. Tanenbaum has become one of Ontario's largest farmers as he works his extensive holdings in Pickering, Scarborough, Etobicoke and Mississauga while waiting for them to become ripe for development.<sup>39</sup>

<sup>34</sup> This does not extend to the right to vote on money by-laws.

<sup>35</sup> Bureau of Municipal Research, "Recreation Easements" BMR COMMENT #129 (Toronto, October, 1971), p. 1.

<sup>36</sup> For further elaboration see G. W. R. Bryant, *op. cit.*, pp. 109ff and Professor R. U. Ratcliff and Dr. S. W. Hamilton, *Suburban Land Development* (Union of British Columbia Municipalities, April 1972), pp. 3, 4.

<sup>37</sup> *The Globe and Mail*, (Toronto, May 24, 1972).

<sup>38</sup> *The Globe and Mail*, (Toronto, August 4, 1972).

<sup>39</sup> Hugh Windsor, *op. cit.*, p. 31.

The consequences of this right to, and desire for, private profits have been severe in many areas. This attitude has been behind rampant speculation in some areas, and this speculation in turn has had an effect on land prices and land use.

The second of these attitudes, that the supply of land is unlimited, probably derives from the pioneer view of a vast, abundant, unexplored country. This view, as we pointed out earlier, is no longer realistic in an urban society facing urban land shortages. Nevertheless, it has given rise to the ideas that growth and development are good, and it has buttressed the attitude that development should be relatively uncontrolled by the public sector.

What are, or have been some of the consequences of these attitudes toward land ownership and development in an urban society? Briefly, to a large extent urban development has been dependent on private initiative, oriented toward profit-making and unco-ordinated.

*Reliance on private initiative for urban development* can have harmful effects. Some of these are pointed out by American new towns analyzer, James Clapp:

(1) location is probably the most influential variable affecting the economic feasibility of a new town development . . .

Furthermore, the site selection procedures which would operate under Title X [U.S. new towns legislation] raise serious implications as to the efficacy of the program as a device for guiding or directing metropolitan area growth. Title X provides no direct means by which the federal government or any other level of government can directly influence the supply of land for new development in desired locations. Since the legislation would in effect call for a continuation of site selection and acquisition procedures currently employed by unassisted developers, the primary criterion will continue to be the availability of sizeable parcels at prices which developers can meet rather than any determinations which may be made by the federal government or regional planning authorities as to the "best" or desirable locations for new towns.<sup>40</sup>

In other words, leaving the initiative for new town development solely in the hands of private developers can make the implementation of public policies and plans impossible. Clapp, of course, was discussing the extreme private enterprise orientation of the American development process — and contrasting it in his book with the British situation, which vests initiative for new towns in the public sector. Canada probably rests somewhere between the two. Canadian plans have more power than American plans, and in Canada upper levels of government are more willing to intervene in urban development and to impose policies on local governments. Nevertheless, official land use plans (both local plans and regional plans such as Ontario's Toronto-Centred Region plan) can be formulated and given ministerial approval; but, without private decisions to develop in the designated locations (either in downtown redevelopment areas and high density core areas, or in regional growth centres), the Canadian plans will remain little more than pieces of paper. Once the decision to develop is taken, the plans and government regulations will affect the form of that development. But implementation still depends largely on private initiative.

Private land ownership and development — whether of housing, shops, transportation or recreation — is, of course, *profit-oriented*. The scale of profit-making varies

<sup>40</sup> James Clapp, *New Towns and Urban Policy* (New York: Dunellen Publishing Inc., 1971), p. 164.

tremendously, from the young couple hoping to make a few thousand dollars from buying an old farm in the country, to the large-scale developer hoping to make many hundreds of thousands of dollars from a huge, multi-use, downtown development scheme. But real questions can be raised about whether this is a proper orientation for land development. Two major results of this profit-orientation are: hope for (and retention of) windfall profits, that leads to extensive land speculation in areas of present or potential development demand; and land-use planning and development that is designed to maximize profits.

As is pointed out repeatedly in the planning literature, many "windfall profits" accruing to individual land owners are the result not of private improvements, but of public ones — such as the building of a highway or subway with public funds — which raise the value of nearby properties. The public sector recaptures only a small percentage of the increased value through taxes.

There seems to be some debate about whether speculators, (or "land traders", if the term "speculators" is too value-laden) as a group make huge profits, and about what effect speculation (as opposed to demand for land) has on overall land values.<sup>41</sup> But there seems little doubt that even the hope of making profits can have damaging effects on the development pattern of an area. For example, a large land owner, in the path of development, can decide to hold land off the market to await higher land values and (if the holdings are large enough) to artificially raise land values. This can lead to leap-frogging development (i.e., development occurring before and beyond this land), which disrupts the over-all development pattern. It can lead to inefficient, expensive servicing of land. And it can lead to increased land costs, with all of the effects cited earlier.

Furthermore, although it is true that some speculators lose money on badly chosen land deals (i.e., speculating in areas where no demand for land materializes) and that some speculators may not make huge profits on each trade, it is obvious that in low-risk areas (areas, such as the Toronto region, where development will obviously occur) or in areas where development has been channelled, speculators do in fact frequently make large profits. Even if each land trader makes only a 10% profit (which is often regarded as a "reasonable" profit), rapid turnover from one speculator making

<sup>41</sup> See G. W. R. Bryant, *op. cit.*; Angus N. MacKay, "Land Speculation — A Comment", *PLAN* (Volume 6, Number 2, 1965), pp. 82-91; G. W. R. Bryant, "Reply to Mr. MacKay", *Ibid.*, pp. 91-94; and *Suburban Land Development, op. cit.* See also C. E. Elias, Jr. and James Gilles, "Some Observations on the Role of Speculators and Speculation in Land Development", *UCLA Law Review*, Vol. 12 (1964-65), pp. 789-799. They conclude that not only is land speculation not harmful, it is beneficial and should be actively encouraged. They argue that, under conditions of perfect information, speculation in land is similar to speculation in other commodities, like wheat, and has two major beneficial results: it smooths out extreme fluctuations in prices and, if demand is relatively inelastic, it lowers the over-all price of land. Furthermore, they state, since speculative dealing favours large organizations over small ones, speculation encourages large land holding and, as a consequence, promotes orderly development. They acknowledge that this model of speculation works only under conditions of complete and equal information. They recommend, therefore, that the role of the public sector is to ensure that all speculators have equal access to information.

Elias and Gilles acknowledge that land — as a unique, rather than homogeneous good (i.e., each piece of land has certain unique location features) and as a good in fixed supply — is perhaps somewhat different from other commodities; but they dismiss these differences as relatively unimportant. Others do not dismiss these as readily. Furthermore, the land market — even in a relatively small area like Metro Toronto — is much more complex than the market implied by Elias and Gilles. The land market is in fact many land markets. Not only are there many actors with unequal amounts of information about servicing and development potential (as Elias and Gilles emphasize), there are also different actors in different markets. Finally, land in both the United States and Canada is not an unregulated, free commodity, but is already subject to much regulation. Elias and Gilles do not deal with any implications of this fact for their speculation model.

10% to another would mean that the cumulative effect of these transactions could greatly and unreasonably increase land prices in a growth area. Examples of rapid land price increases abound — a 99 acre farm increasing from \$78,750 in 1967 to a current estimated value of between \$346,500 and \$495,000; or land purchased for \$600 an acre 8 years ago being sold for \$8,000 an acre today. It is these speculative successes, not the losses, which should be of concern to urban planners and the average citizen alike. After all, it is obvious that urban development occurs in those areas where, in effect, the speculators have been successful. The losses may justify, in the eye of the investor, large profits taken elsewhere, but the negative effects on planning and development must also be recognized.

Finally, and probably most importantly, the profit-orientation of private development (apart from the possible excesses of speculative dealing) may have serious, negative effects on land use planning and development. The most "economic" (or most "profitable") use for a piece of land is not necessarily the most socially desirable use. Too often prime agricultural land has been prematurely taken out of farming for speculative reasons<sup>42</sup> or converted into suburban sub-divisions: much-needed recreational land has been converted into shopping centres or houses or highways; low-cost, low-density residential areas have been "renewed" into high price, high-rise residential areas;<sup>43</sup> and the housing unit mix of a large residential complex has been determined not by the housing needs of the over-all urban population but by the dictates of "the market".<sup>44</sup> The private market for housing, however, is composed only of an "effective demand" for housing — i.e., those who can pay the going rates for housing. The private sector does not respond to the "non-effective demand" — i.e., that growing segment of the total population who cannot afford current prices. In all these examples,

... the play of the market forces may be very far from producing the best use of a given area of land. Public interest is in conflict with private profit, and it is very often so...<sup>45</sup>

In other words, there is frequently a residue of unmet needs (ranging from housing to recreation needs). Private gains may be public losses.

The third major characteristic of urban development is that it has been unco-ordinated. Ontario is unusual in having an outline for future urban development.<sup>46</sup> But this is new, sketchy and still relatively untested. Since development, and official plan implementation, still depend on private initiative, the precise timing and location of development is not co-ordinated. As we have indicated, development occurs where and when private decision-makers deem it to be most economically advantageous (withing limitations, such as the timing of services by the public sector, which are discussed below). This is true both on a city-wide basis (i.e., what areas of the City will be redeveloped or developed first) and on a regional scale (i.e., what areas will be converted into urban use or will be more densely developed). This can, of course, lead to "urban sprawl", that frequently reviled phenomenon of fragmented,

uneconomic, unaesthetic urban growth.<sup>47</sup> While the trend toward privately developed new towns in Southern Ontario<sup>48</sup> reduces costs and the unpleasant effects of urban sprawl by promoting "comprehensive planning" of relatively large areas, it does not eliminate unco-ordinated intra-regional development. The location and timing of new towns themselves are still basically and ultimately private decisions.

What is the *public role* in urban land development? As we stated earlier, upper level Canadian governments are more likely to intervene in local and regional development matters than are their American counterparts, and there is a long history of government intervention in urban and regional development. Nevertheless, almost by default the public role in general has been to stimulate private enterprise, to be the developer of last resort, and to provide only negative controls over private development.

Many people, ranging from private individuals and land developers to civil servants and politicians, have maintained that one of the primary functions of government is, where possible, to support and stimulate private enterprise so that it can fulfill housing and other needs of urban development. Support, not direct public involvement is advocated.

The extensive use of the private development industry as "partners in development" with the Government can effectively reconcile the current shortages in developable lands in the shortest period. The industry has capability to undertake development in all its stages, including extension into provision of schools, municipal structures and other infrastructure under expanded financing arrangements.<sup>49</sup>

Government would be the relatively "passive" partner in these development enterprises.

In the past, public support has come in the form of financial incentives, tax breaks, and provisions of services for raw land. A good example of public investment resulting in support of private development is the Ontario Water Resources Commission 130 million dollar project in South Peel, which aided area municipalities in the provision of services, and, as a consequence, opened up vast tracts of land which are now being developed by private developers.

For some, even the present provincial planning and development policies are too direct.

I do not believe that the provincial government should act as a land assembler or landowner...

The government must ensure the operation of the free enterprise system in the housing industry.

It can do so by eliminating the roadblocks that for nearly 20 years have caused a shortage of building lots and thus created ideal conditions for rampant land speculation.

There is plenty of land, but because of government policy there is a shortage of accessible serviced land approved for subdivisions.

It can best solve this by making it its business to provide the basic needs for serviced land throughout the province — and ensure there is more serviced

<sup>42</sup> *Toronto-Centred Region*, op. cit., p. 2

<sup>43</sup> The public sector is by no means free of planning by economic fiat. Too often planning decisions, such as the route of a highway or a change in the zoning by-law, are made for short term financial gains (or savings), rather than for long term social benefits (benefits that often are not readily quantifiable). The public sector, however, is not motivated solely by the desire to maximize profits, and therein lies the difference.

<sup>44</sup> Supply is also affected by zoning regulations.

<sup>45</sup> G. W. R. Bryant, op. cit., p. 11

<sup>46</sup> *Interview*, *Urban Canada*, op. cit., pp. 183, 184

<sup>47</sup> *Toronto-Centred Region*, op. cit., pp. 2, 13. James Clapp, op. cit., pp. 77ff

<sup>48</sup> See Bureau of Municipal Research, *The Toronto Region's Privately Developed New Communities* (Toronto No. 2, 1972)

<sup>49</sup> Urban Development Institute Ontario, *York Region Brief*, op. cit., p. 17



land than is necessary to meet the immediate needs of developers – and then stand back and allow the natural laws of supply and demand to work for them.

The fact of the surplus, which it should be the government's policy to maintain, would act as a downward thrust on the price of land.<sup>50</sup>

Many would argue (as we show below and in the section on limiting rising land prices) that simply increasing the supply of serviced land would not, in fact, solve the problem.

Relative public and private roles in development are perhaps most clearly demonstrated in the area of low-income housing. This is a sensitive area because the provision of this type of housing may or may not be a "profitable" venture, depending on the type and degree of public intervention. As the Dennis Report on Low-Income Housing points out, the last clear statement of federal policy on the role of government in low-income housing was the following:

We must, therefore, not only improve the operation of private markets in order to accelerate the total output of housing, but we must also stimulate the provision of modest accommodation for low-income people, augmenting it, if necessary, with what may be regarded as non-market devices in order to get a higher yield of new units out of the nation's housing efforts.<sup>51</sup>

Although this shows some interest in more active intervention, the reliance is still on the operation of the private market.

The Dennis report concludes:

The refusal to act stems from an almost religious belief in the private market as the only fair and efficient mechanism for distributing society's resources. Even the social housing programs, which have received much publicity lately, are an afterthought, and appendage to the unguided, uncontrolled market system. No effort is made to plan for them, to determine the type, extent, location, and magnitude of need. That would necessitate greater efforts, increased intervention, more interference with the private production process.<sup>52</sup>

The public role of stimulating and supporting private enterprise may be appropriate in some circumstances. But in others it may not be the most effective; a more direct involvement, even one that is in direct competition with private enterprise, may be warranted.

The second popularly accepted function of government in land and urban development is that of developer (or preserver) of last resort. The public sector, it is believed, should not usurp profit-making, or potentially profit-making activities. These are in the purview of the private sector.

Government assembly of land for recreational or environmental purposes is right and proper. But this idea that provinces are more efficient land and housing developers than private industry is so much rot . . .

The [development] industry has no objections to the government acting as a

<sup>50</sup> Donald M. Deacon, MPP York Centre, Letter to the *Toronto Star*, June 28, 1972. See also Dennis Report, *op. cit.*, Chapter 9, "Land Assembly and Land Banking", pp. 315, 346 for additional documentation.

<sup>51</sup> R. K. Andras, Notes for Statement on Bill c-192, House of Commons, May 1969, cited in the Dennis Report, *op. cit.*, p. 3.

<sup>52</sup> *Ibid.*, p. 3.

"developer of last resort" says Mr. Scott [immediate past president of U.D.I. Ontario, and Vice President of Costain Estates Ltd.]

This was one of the original goals of the OHC. But the industry wants to draw the line before it finds itself "simply working for the government".<sup>53</sup>

The third major function of the public sector is to provide negative control over private development. Local and provincial governments do have a strong role in land-use planning – but it is essentially a negative role. Official plans, zoning and subdivision regulations, building and health codes are all basically negative controls – i.e., they indicate where the developers can or cannot develop, and they place certain restrictions on the form, materials, uses and so on of buildings. But they do not ensure that development areas are developed. To a large extent, therefore, the private sector initiates and the public sector responds and controls.

The Lithwick Report points out that the public role in urban development over the years has been growth-oriented, economically-determined, short-term, reactive and fragmented.

To sum up, urban development in Canada today is not guided by comprehensive, rational policies. It is impelled by a basic belief in the righteousness of economic expansion, and it is expressed in a willingness to accept growth as inevitable and indeed desirable. In the absence of any more explicit goals, urban policies tend to be pragmatic, piecemeal, and responsive rather than allocative in nature.

The passive role assigned to government by the dominant values of the day is the primary factor which establishes its response to urbanization . . . Faced with an urban world, common sense and a recognition of social costs and benefits lead to the conclusion that the present remedial role of government, working in the interstices of economic initiative, will have to be replaced by a creative concept which anticipates and guides the forces of urban growth.<sup>54</sup>

In summary, the public sector has only a *limited role in land purchase and ownership* (for government services such as highways, parks, environmental protection and the government's own needs); a *strong but basically negative role in land-use planning* (drawing up urban and regional plans which give general direction to the type and location of development, enforcing zoning laws, subdivision requirements and building codes); and a *limited, generally supportive role in land development* (servicing raw land so that the private sector can develop it; and building public services such as highways).

As we pointed out earlier, Ontario has been formulating growth policies and comprehensive regional development plans. The Toronto-Centred Region Plan is one such plan and the government has reaffirmed its intentions to proceed with it.<sup>55</sup> This Plan itself is a large step forward in dealing with urbanization and in promoting co-ordinated regional development. But the implementation of that Plan (and others) will require even more direct public intervention in land development than has been demonstrated by the Province until now. The most recent statement on TCR implementation, however, still relies on the aforementioned support of private enterprise and negative controls:

<sup>53</sup> Quoted by Clayton Sinclair in "Land Developers' New Rival", *Financial Times of Canada* (June 12, 1972), p. 5.

<sup>54</sup> Lithwick, *Urban Canada*, *op. cit.*, p. 175.

<sup>55</sup> W. Darcy McKeough, *Ontario Budget 1971*, p. 23.

The range of implementations measures available to the Province includes public works, development controls and various types of incentives.<sup>56</sup>

The provincial land assembly of 25,000 acres for a new town adjacent to the proposed airport in Pickering is one example of direct, large-scale public intervention in the urban development process. As noted earlier, this is a first step – and possibly a model for future provincial actions. Nevertheless, without a detailed statement of over-all land development and implementation policies, this is still an isolated, preliminary step.

With more and more of the population living in urban areas and with urbanization now so rapid and intense, there is a growing awareness of the need for reassessing traditional views of the proper relative roles of the public and private sectors in urban development. New roles and new techniques are being discussed. Large-scale public land banking for multi-purpose urban development is one technique that has been receiving considerable attention – though so far apparently stimulating relatively little action.

### THE PUBLIC LAND BANKING RATIONALE

Although the public role in land development in Canada today is largely reactive (to private initiative), supportive (of private enterprise) and negative (providing limited control over private development); the range of possible public roles is, of course, very wide indeed. Possible roles range from complete *laissez faire* to complete domination of land development. As we have seen, many groups and individuals have recommended that government should play a much more active role by becoming involved in large-scale public land banking.

Why are there so many advocates of large-scale public land assembly and land banking? There are many reasons. The most frequently mentioned ones are grouped together in this section under three broad claims: that land banking would (a) facilitate planning and help control urban development; (b) limit rising land, housing and public service costs and (c) promote more equitable distribution of profits from land. The arguments against public land banking are discussed at the end of the section.

Obviously there is considerable overlap between the land banking arguments presented below. Facilitating planning and lowering land costs are closely interrelated, because lower land costs make many more planning options possible. Also, some of the factors are possibly conflicting ones: for example, the desire to lower land prices may conflict with the desire to generate public revenue. Whether or not there is a conflict depends on how the public sector uses the land banking technique. If the public sector opts for generating as much revenue as possible by selling its land at market value, it cannot lower land prices at the same time. If, however, the public sector opts for both generating some revenue and lowering land prices, it can do so by selling its land above cost (thereby making some profit), but below market value (thereby lowering land prices). Finally, it is obvious that public land banking, although not a panacea for all urban ills, is a multi-faceted tool which, if used wisely, can be extremely valuable. The flexibility and multi-faceted nature of public land banking may, in fact, be one of its major advantages.

<sup>56</sup> W. Darcy McKeough, *Design for Development: A Status Report on the Toronto-Centred Region*, (Toronto, August 1971), p. 5.

### Public land banking would facilitate planning and help control urban development.

Planners have been among the most vocal supporters of land banking. Why? Because, they argue, large-scale public land assembly in advance of need for urban development can have several beneficial effects on urban planning. It can facilitate plan implementation. It can encourage comprehensive and flexible planning of a project, a city or even a region. And it can make possible the inclusion in plans of broad social goals, as well as economic ones.

As we indicated earlier, the issuance of a city or regional plan in Canada, (as in the United States), does not guarantee its implementation. The location and timing, as well as many other aspects of development, are left largely to private decision-makers. The noted planner and urban historian John Reps has expounded upon shortcomings of North American planning by negative controls (such as zoning), and has proposed that advance public acquisition of land on the urban fringe would be a more positive method of planning urban growth:

The most important advantage of such a system, which alone justifies its adoption, is that it would provide effective control over the strategic elements of urban growth – the location, the design, the sequence, and the tempo of development. Our present control mechanism, relying chiefly on the police power regulations [such as zoning and building codes] does not. Decisions about land use in this country [U.S.A.] are those of private individuals tempered only slightly by the public interest. The proposed system would place these essential decisions in the hands of an agency charged primarily with promoting and safeguarding the public interest but directed as well to the needs and interests of private parties.<sup>57</sup>

The value of public ownership of critical pieces of land for ensuring plan implementation has been demonstrated by the experiences of a few Canadian cities and of many foreign ones. Urban planner Ann Louise Strong has summarized the foreign experiences:

Public land ownership has been a crucial element of almost all successful European planning. Tapiola is a major exception,<sup>58</sup> although public acquisition of land prior to development is common in Finland. Stockholm's satellite centres, the British and Israeli new towns, the polder new towns of the Netherlands, Rotterdam's port development and urban expansion, and the Languedoc-Roussillon resort towns and coastal development share the common element of public land acquisition in advance of development.<sup>59</sup>

Probably two of the best known foreign examples of the value of public land assembly and ownership for controlling urban and regional growth are Stockholm and the British new towns.

According to Göran Sidenbladh, a director of the Stockholm Department of Planning and Building Control.

Stockholm's ability to plan its physical, economic and social development must be attributed mainly to one all-important factor: public ownership of

<sup>57</sup> John Reps, "The Future of American Planning: Requiem or Renaissance?" in *Planning 1967* (Chicago: American Society of Planning Officials, 1967), pp. 50, 51.

<sup>58</sup> Tapiola, Finland was in fact developed by a private, non-profit corporation which did own all the land assembled.

<sup>59</sup> Ann Louise Strong, *Planned Urban Environments* (Baltimore: The Johns Hopkins Press, 1971), p. xxxi.

the land. If destructive fires (in the 17th century) made planning necessary, government control of the land made it possible.<sup>60</sup>

Stockholm – a city of 770,000 in a metropolitan region of 1,300,000 – has a long history of public land ownership. The City began its present municipal land bank in 1904 (under a conservative municipal government) by buying vast estates outside the boundaries of the City. From 1904 to 1967, the City spent more than \$110 million to purchase some 134,000 acres of open or under-used land.<sup>61</sup> Municipal land acquisitions are made by STRADA, the municipal land buying company, while land policy and development is dominated by the real estate board (composed of political, legislative, technical, and administrative leaders). No municipal land has been sold in the last 20 years. A leasehold system has been adopted which enables the City to retain title and control of the land, while freeing it for use by the citizens.<sup>62</sup> By 1966, the City owned about 74% of all the land within its boundaries and such satellite centres as Vällingby, Farsta and Skärholmen now risen on municipally-owned land.

These satellite centres are the product of a decision made early in the century to concentrate development in "garden city" nuclei along transportation corridors.<sup>63</sup> This concept was up-dated and incorporated in the Stockholm regional plan which was adopted by the Regional Planning Federation in 1958 and by the national government in 1960. The Regional Plan is revised every five years with projections for the next thirty years. As Stockholm's planning director emphasizes, the purchase of the land for these satellite centres was one of the crucial elements in ensuring that the regional plan was implemented. Urban growth was planned, and was able to proceed in an orderly, rather than unstructured, leap-frogging, sprawling manner.

As a result [of the foresight of the city fathers who early in the century began to buy outlying land for expansion of the city suburbs] the development of most of the outer residential areas has proceeded in planned and orderly fashion. Indeed, this phase of planning activities by Stockholm is probably the city's most important achievement.<sup>64</sup>

The British new towns provide another vivid example of the value of public acquisition of land for purposes of regional (or national) plan implementation. Without powers of site acquisition (voluntary or compulsory), in "considered relationship to regional plans", the location of the new towns would, like American new towns, be "chancy and even chaotic".<sup>65</sup>

British policy is designed to limit the growth of major population centres, such as London, and to locate the "overspill" population in planned new towns (or expanded old towns). More than 20 new towns have been designated. There is a national focus to the policy, because planning responsibility and initiative rest with the national government, through the Minister of Housing and Local Government, rather than with local governments or private enterprise. Obviously public land assembly alone has not been responsible for implementation of the new towns' schemes. The British have co-ordinated the new towns' policies with other policies, such as housing and industrial

<sup>60</sup> Goran Sidenbladh, "Stockholm: A Planned City" in *Cities* (New York: Alfred A. Knopf, 1968), p. 75.

<sup>61</sup> Shirley Passow, "Land Reserves and Teamwork in Planning Stockholm", *Journal of the American Institute of Planners*, (May, 1970), p. 179.

<sup>62</sup> *Ibid.*, p. 180.

<sup>63</sup> *Ibid.*, p. 180. Strong, *op. cit.*, p. 39. Sidenbladh, *op. cit.*, p. 82.

<sup>64</sup> Sidenbladh, *op. cit.*, p. 82.

<sup>65</sup> Frederic J. Osborn & Arnold Wittick, *The New Towns – The Answer to Megalopolis* (London: Leonard Hill Books, 1969), p. 154.

location programs. But public land assembly and development has been an important factor.<sup>66</sup>

There is no Canadian example of land banking for large scale regional development purposes that is comparable to either the Stockholm or British experiences. But several Canadian cities have recognized the value of advanced land acquisition by municipalities for planning their urban growth and providing public services. Three are discussed here – Saskatoon, Saskatchewan; Edmonton, Alberta; and Red Deer, Alberta.

Saskatoon, with a population which has tripled from 40,000 in 1946 to 130,000 today, has been operating a land bank for nearly 20 years.

At the end of World War II Saskatoon held title to some 8,500 building sites, which had largely resulted from tax defaults during the Depression. The post-war housing boom led to a recognition by the Saskatoon Council in the early 1950's that the City-owned tax-default property was running out. In turn, this recognition led to a decision to purchase raw land for urban development purposes (i.e., to start an urban land bank).

Council considered it essential that future growth be orderly, that speculation be eliminated as much as possible and that land values be kept low to encourage new house building.<sup>67</sup>

As a result, the City purchased major acreages of raw land inside and outside the boundaries of the City and became the major land developer in the City. To date, the City has purchased some 4,500 acres of land for residential purposes, 850 acres of industrial property and, since 1967, about 1,100 acres in partnership with the Federal and Provincial governments.<sup>68</sup> And, despite large sales, according to its own calculations, the City has enough land available to take care of building requirements for the next twenty years.<sup>69</sup> The City sells land at a relatively low price, but at a price that is still profitable to the City. The most significant use of profits has been to purchase additional land. Saskatoon has claimed that:

<sup>66</sup> The British new towns have been the objects of both praise and criticism. In a well-balanced discussion, Ray Thomas, in *London's New Towns: A Study of Self-Contained and Balanced Communities* (London: Political and Economic Planning Broadsheet XXXV, April, 1969), evaluates the eight new towns surrounding London both in terms of their original purposes and in light of the major criticisms levelled at them. He concludes that, on balance, the new towns themselves have been quite successful:

In accordance with the aims of their planners, London's new towns have indeed become 'self-contained and balanced communities'. They may not have become self-contained for quite the reasons that were expected. But, by any contemporary standards, they are, as far as journeys to work are concerned, outstandingly self-contained. The employment surpluses in a few of the new towns may be a bit large. The new towns may not have taken enough of poor or unfortunate people of the sort who have become London's homeless, and they may not include among their population any millionaires. But the only ways in which they are significantly imbalanced is in their age structure. At the level of analysis conducted in this study London's new towns are in fact a howling success. (p.448).

At the larger scale of regional development and solving London's problems, however, Thomas concludes that, while the new towns have demonstrated some usefulness (particularly in the example of Basildon which has helped alleviate severe unemployment in its region), they have not contributed much to solving these larger problems. Thomas argues that additional government actions, especially in encouraging the decentralization of office employment from London, are needed.

<sup>67</sup> The City of Saskatoon, *Land Policy in Saskatoon* (enclosed in a letter April 27, 1972), p. 1.

<sup>68</sup> *Ibid.*, p. 4.

<sup>69</sup> *Ibid.*, p. 5.



[m]any advantages have accrued to Saskatoon as a result of its real estate policy: land prices have been kept down, low cost housing has been encouraged: large blocks of land have not had to "leap-frog" unbuilt areas . . . Planned development has become a reality.<sup>70</sup>

It is this latter advantage – the value of public land ownership for controlling the pattern of urban growth and providing public services – that is of concern in this section. The City has described this benefit in the following laudatory terms:

1. Saskatoon has been able, both as the municipal planning authority and as a land owner, to plan its development in the fullest, comprehensive sense. The directions, rate and type of growth can be controlled, related to servicing requirements and criteria, and the over-all costs of development kept to a minimum through organization and co-ordination. This organization and co-ordination is often denied other cities, while in Saskatoon it has become a way of life.
2. All major external fringe area and suburban growth problems have been overcome and steps taken to prevent their recurrence.
3. We have been able to provide abundant lands, in the right location and of the right type, for parks and recreation needs at the neighbourhood and city level, and at times almost on a regional basis.
4. We have been able to accommodate all school needs in developing areas, at very reasonable prices and have evolved a philosophy of fully integrated school and park sites. We can provide and hold school sites for long term needs and still maintain prices.
5. All announced needs for community facilities including churches, fire halls, libraries, utilities, hospitals and institutional uses, can be, and have been taken care of in subdivision and land use planning.
6. The City has major control of all land use patterns and zoning, including all new residential, industrial and institutional areas.<sup>71</sup>

These general findings, described above by the City itself, were accepted by the Hellyer Task Force, which used Saskatoon as a prime example of the value of land banking for controlling urban growth,<sup>72</sup> and they seem to have been accepted by other observers more impartial than the City administration.<sup>73</sup>

Is public land ownership necessary to control growth? This cannot be answered definitely here; but the Saskatoon experience, (as explained by official sources in the City), has corroborated our earlier contention that past North American techniques have not been particularly successful in guiding urban development and that public land ownership and land banking provides the surest method of plan implementation.

A second public interest satisfied by the competitive public dominance of raw land ultimately required for urban purposes is simply that the planning and control of physical development is rendered more easy. Certainly legislation is available to provide for the *orderly* development of land – whether in public

or private hands. However it is a fact of our way of life that such legislative controls are rendered more effective when the land under development is under public ownership.<sup>74</sup>

Edmonton, Alberta, is a second Canadian example of a city using large-scale public land assembly and ownership to control urban growth. Edmonton, a city of 434,000, is one of the fastest growing cities in Canada. Feeling the pressures of urbanization (particularly in the areas of housing supply and transportation implementation), and facing a situation in which most of the land in the proposed direction of development was under private control, Edmonton in 1969 initiated the Mill Woods Project. The Alberta Housing Corporation (with federal financial assistance) purchased 5,085 acres of land south east of the City Centre (4,425 acres, or 68% of the Mill Woods Planning Area, and 660 acres outside the area); and agreed to sell this land to the City over the next 15 years.<sup>75</sup> In this way, the City has used land banking to radically redirect the growth of the City. A new community of 120,000 is expected to rise on this site, and profits from the sale of land in this project will probably be used to finance an on-going land banking operation.<sup>76</sup> There are two major goals of this project: to effect land and housing economies, and to create "an urban environment of the highest order". In this section we are concerned primarily with the latter, planning aspect.

The City has high expectations of the Mill Woods Project, both for the project area itself and for the City as a whole:

The land holdings in Mill Woods means (sic) that the City should be able:

- to guarantee the availability of serviced lots for general housing purposes;
- guarantee sites for specific needs, such as schools, public housing, hospitals, parks, at minimum costs;
- guarantee the most economic form of growth for the City as a whole;
- control land value escalation so that fewer residents will be forced to rely on some form of subsidized housing;
- implement, at lower right-of-way costs, major transportation facilities within the City; of (sic) orderly and economic growth in the City as a whole.

With this program the City is now firmly back into a controlled situation whereby some balance and reason can be applied to the supply of land in relation to the demand for it.<sup>77</sup>

The potential value of this type of land banking for public control of urban development was summarized:

There exists the opportunity for the development of a residential community of unrivalled environmental quality. A plan of the highest quality is possible

<sup>74</sup> The City of Saskatoon, *General Submission to the Federal Government's Housing Task Force Hearings in Saskatoon, Saskatchewan*, (October 30, 1968), p.3.

<sup>75</sup> This project was initiated under a Social Credit Government.

<sup>76</sup> The City Planning Department, the City of Edmonton, "Development Objectives – Economic" *Mill Woods – A Development Concept*, (no date, no page numbers); and letter from P. Ellwood, Mill Woods Project Director, dated March 2, 1972.

<sup>77</sup> "Development Objectives-Economic", *Mill Woods Development Concept*, *op. cit.*, (no page numbers).

<sup>70</sup> *Ibid.*, p. 5

<sup>71</sup> The City of Saskatoon, *Summary of the City of Saskatoon's General Brief* submitted to the Honourable Paul Hellyer's Task Force on Housing (October 30, 1968), pp. 1, 2.

<sup>72</sup> *Report of the Federal Task Force on Housing and Urban Development*, *op. cit.*, p. 40.

<sup>73</sup> Boyce Richardson, "Saskatoon: the city as landowner", *The Canadian Forum* (May, 1972), pp. 42-44.

and its implementation will be at the choice of the City and not of innumerable private landowners.<sup>78</sup>

But it is still too early to determine how successful Edmonton will ultimately be. It is clear, however, that the City is adopting a much more active role in land development. There is evidence that land prices in the Mill Woods Project are lower than in private developments (see discussion in the section on land costs); and it seems likely that the land banking operation will have distinct positive effects on the quality of planning and the cost and availability of public services.

Red Deer, Alberta is another Canadian example of a City that started a land bank in order to ensure that the expansion of the City would be properly planned. By 1956 the City had decided that it must plan for a great population increase over the next twenty years (from a 1946 population of 4,000 to a 1953 population of 9,000 to an expected population of 40,000). The City estimated that 1,750 acres of land would be needed for industrial uses. It also recognized that "land speculation could quickly wreck the plans for orderly and economic growth".<sup>79</sup>

Faced with this situation:

It was therefore decided the city should acquire quietly, as opportunity arose and finances permitted, certain strategic lands on the fringes. Where possible it obtained long-term options on large tracts of land in the logical direction of development.<sup>80</sup>

Red Deer purchases or acquires options on land one to five years ahead of need. While subdivision and engineering designs are prepared for about 150 to 200 acres at a time, only lands required within the next 12 to 18 month period are actually subdivided and serviced. In its land dealings, Red Deer has acquired all land by negotiation, not expropriation, when the time comes, the town disposes of the land by sale, not lease. The sale price is enough to cover land costs and both off-site and on-site servicing costs, as well as all design and supervision fees. Almost all lots are sold to builders (only 10% are made available directly to individuals), and the purchaser is required to start construction within 12 months. The City recovers the cost within 12 months and reinvests the money in more land and services.<sup>81</sup> Since the beginning of the program, about 750 acres have passed through the municipal ownership, servicing and sale process, and an additional 300 acres are being prepared.<sup>82</sup>

One of the major benefits of the land banking in Red Deer, according to the Director of Planning has been that:

By city ownership of the land, more generous open space, parks and school sites can be provided and generally the opportunity for improved design layout cannot be underestimated.<sup>83</sup>

Red Deer, a small city that has experienced rapid growth, has demonstrated that a small city can operate a land bank and that land banking can have beneficial results for small cities as well as large.

<sup>78</sup> The City Planning Department, *The City of Edmonton, South East Development Area*, (January, 1972), pp. 2, 3.

<sup>79</sup> Denis Cole, "The City of Red Deer", *HABITAT* (vol. VI, no. 4, July-August, 1963) p. 31.

<sup>80</sup> *Ibid.* p. 31.

<sup>81</sup> *Ibid.* pp. 27-8.

<sup>82</sup> Kermit C. Parsons and Harriet L. Budke, "Canadian Municipal Land Acquisition and Development Control", *A S P O Planners Advisory Service Report*, (October 1972), p. 8.

<sup>83</sup> Denis Cole *op. cit.* p. 33.

Plan implementation, which is the major focus of the above discussions of Stockholm, Britain, Saskatoon, Edmonton and Red Deer is not necessarily valuable. It is only valuable if the plan is a good one. Does public land assembly and banking have any beneficial effects on the type of plan developed? Two major possible effects on the plan can be identified: (1) the plan can be more flexible; and (2) the plan more easily can pursue social as well as purely economic goals.

If a large area of raw land is purchased before the land use pattern has already been determined by public and private development decisions, and if the land is held and planned as a unit, comprehensive, flexible plans are not only made easier, they are made possible. First, since the pattern has not already been set, there are more possible planning alternatives. Second, if the site is owned by one owner, co-ordination is easier; the development can be planned in stages and plans can more easily be adapted to technological or other changes occurring at some future date. And finally, if the land is never sold, but only leased to its users, its form and uses can be changed by the owner over time as this becomes necessary. This has been one of the major advantages of the Stockholm leasehold system:

A major advantage [of leases] was that leases helped the city to regulate growth and design: they ensured the city of the land it wanted, when and where it wanted.<sup>84</sup>

Flexibility is possible, of course, whether the owner of the land is in the public or the private sector. But, one major advantage of *public* as opposed to *private* land banking is that the plan and the final development (whether a subdivision or a new town) are better able to take into consideration social, as well as economic, needs and to implement broader public policies. This aspect of public land banking was touched upon earlier when the location of new towns was discussed. Conflict between maximizing profits and attaining such social and public policy objectives as locating the development near (or far away from) population centres and providing low-income housing and adequate public services such as parks, is a common problem of privately sponsored North American new towns:

The contradictions between ideal planning objectives and the often harsh realities of dominant cultural values and business purposes are nowhere better illustrated than in the contemporary "new town" movement. Hailed as precursors of the urban future, today's new towns, much like Gary [Indiana, a company town founded by U.S. Steel Corporation in 1906], have built-in problems undermining the ideal community. Columbia, Maryland — the most widely publicized new town — is a case in point. ... Built by a private developer the James Rouse Company, Columbia began essentially as a company town; the Rouse Company listed among its major goals the making of "substantial profit" ... profit motives have led the Rouse Company to sell extensive tracts within the town to large-scale developers, who in turn build and sell expensive homes. Market factors alone serve to exclude all but a few low-income families from Columbia. In addition, the cultural values of most middle class and professional residents buttress exclusionist policies. Thus, many low-income wage earners who work in Columbia's industrial plants are forced to seek housing in nearby unplanned areas outside the town. The pluralistic society originally envisioned by Columbia's designers has never fully materialized.<sup>85</sup>

<sup>84</sup> Passow, *op. cit.* p. 181.

<sup>85</sup> Raymond A. Mohl and Neil Betten, "The Failure of Industrial City Planning, Gary, Indiana 1906-1910", *Journal of the American Institute of Planners*, (July 1972), p. 213.

One of the facts revealed by the Dennis Report on low-income housing in Canada was that "in most metropolitan centres some half-dozen builders control the majority of the land in the path of immediate development".<sup>86</sup> The implications of this fact for whether or not these centres will in future be developed "in the public interest" are disturbing.

Edmonton's Mill Woods Project provides a good Canadian example of a city intending to use public land assembly and development to accomplish broad social goals that are often overlooked by private developments:

The Development Concept is based on the premise that the ultimate community will be comprised of a wide range of housing types and tenures, fostering and encouraging a community of diverse characteristics broadly representative of the City at large . . .

Housing programs to be implemented will be determined to a large degree by the housing needs of the City at large and the competitive influence of other major growth areas. Housing demand as expressed through the real estate market will constitute only a portion of the real need. Special requirements of minority groups such as the elderly and the handicapped, must be identified and assessed for inclusion into the Mill Woods Housing Program. Administrative policy to encourage diversity of tenures will be formulated to allow the greatest possible number of residents of varying economic capability to enjoy adequate accommodation and home ownership . . .

To assist in the Marketing program, a city-wide study would be advantageous in order that the accommodation needs of those not reflected by market demand can be incorporated into future planning and administrative policy. It is of critical importance that the housing programs meet social as well as economic objectives.<sup>87</sup>

All of the planning arguments discussed here — ensuring plan implementation, encouraging comprehensive planning, enabling flexibility in long-range planning, and accommodating broad social and public goals as well as narrower economic ones — should be of particular interest to those planners charged with planning and implementing the Toronto-Centred Region. Without large-scale public land assembly at the critical places, it is hard to imagine how the plan can be effectively transferred from paper to reality.

#### Public land banking would limit rising land, housing and public service costs.

One of the major problems facing Toronto and other rapidly growing metropolitan areas is the sharp increase in land prices. It was shown earlier that land price increases have harmful effects, including that of increasing the costs of public services — sometimes to the point where cities can no longer maintain an adequate level of services — and increasing costs of housing to the point where a growing number of people cannot afford to purchase homes.

The advance acquisition, by government, of land which will ultimately be needed for public services and urban development, can result in considerable savings as we will show. These savings in turn enable the owner to sell, or lease, the land for lower prices than would have been possible if the land had been purchased for higher prices.<sup>88</sup> As

<sup>86</sup> Dennis and Fish, *op. cit.*, p. 8.

<sup>87</sup> "Residential Environment", *Mill Woods Development Concept*, *op. cit.*

<sup>88</sup> Both the *Report of the Federal Task Force on Housing and Urban Development*, *op. cit.*, p. 43 and the Dennis and Fish Report, *op. cit.*, p. 2, recognized that land banking could reduce land costs and housing costs.

we pointed out in the previous section on planning, this acquisition also means that the necessary land is available when needed, and not committed to some other use.

Advocates of land banking argue that large-scale advance acquisition of land by the public sector can lower, or at least prevent from rising, land costs (and consequently housing and public service costs) for the following reasons:

- land is bought cheaply before it is in demand for urban uses;
- land is bought before prices rise as a result of speculative dealing;
- land is bought with a non-profit or limited-profit goal;
- land is bought in order to introduce or maintain competition in the urban land market.

Undoubtedly, the most important factor influencing the price of land is the demand for the land. The greater the number of people who want to live and/or do business in one area, the higher the price for the land will be. As we shall see, speculative trading can inflate these prices — sometimes to an unrealistically high level. But the basic cause is demand, coupled with limited, relatively inelastic supply.

A good example of the kinds of savings (or potential profits) that can occur as a result of advance acquisition is the Ontario Housing Corporation project of Malvern. Whether or not the project was originally intended to be a land bank is beside the point here. In fact, the Malvern project (1,704 acres of raw land purchased by the Federal and Ontario governments in 1953 in the Toronto borough of Scarborough, and located 12 miles north-east of downtown Toronto) has become a public land bank, to be used for moderate-income housing. Raw land, originally purchased for about \$1,000 per acre and now having a "book value"<sup>89</sup> of about \$3,000 an acre, has a current market value of about \$32,000 per acre, or more than ten times the original cost. If servicing is added to the raw land costs, the book value of an acre of serviced land is about \$36,200 while the market value of the serviced residential land is about \$63,000 to \$75,000 per acre.<sup>90</sup> While the cost of land is only one factor in increased housing costs (servicing, mortgage, building costs and so on are others) the savings possible in this one factor are obviously tremendous.<sup>91</sup>

Both the public and private sectors can use advance acquisition to their benefit. But the public sector enjoys certain distinct advantages, which make even greater savings possible. First, one of the major problems in advance land acquisition is anticipating the direction of urban growth. If the purchaser anticipates correctly, he can reap tremendous benefits; if he miscalculates, the losses can be great. The high risk factor involved is one reason that private land speculators expect such a high return on their successful deals. The burden of this return is passed along to the ultimate purchaser of the land. For the public sector the risk is much less because it is the public sector (particularly the provincial government, but also to a lesser extent the municipal government) which can determine the direction of growth.

<sup>89</sup> "Book value" is the cost of the raw land plus the carrying charges.

<sup>90</sup> Servicing cost figures are those for Neighbourhood 8 (167 acres), including roads, landscaping, hydro, municipal levies, design and engineering fees, etc. The market value is based on having 4-1/2 to 5 lots (each lot being 50' x 100' and having a market value of between \$14,000 and \$15,000) per acre.

<sup>91</sup> We should note, however, that OHC has not used the sale price of its lots to reduce the general level of land prices in the area around Malvern. Rather than selling its lots close to book value and marketing a substantial number at one time (both of which would affect the level of prices in the area), OHC has set a price which is slightly below market value and is marketing the lots in three phases over the next fifteen years.



A second advantage for the public sector is that it can use expropriation to acquire the land and therefore can prevent "hold outs" from increasing assembly costs.

And a third advantage for the public sector is that it can borrow money at a lower rate than the private sector. It therefore has lower carrying charges. This point was made by the Executive Director of the Ontario Urban Development Corporation:

The province cannot purchase land any cheaper than private developers. But it enjoys lower carrying costs and can withstand the burden of long-term investments easier than any developer.<sup>92</sup>

Secondly, public land banks can help reduce land price increases by purchasing the land not only before its price is increased by demand for urban uses, but also before it is inflated by speculation.<sup>93</sup> Some argue that it also can actually prevent speculation from occurring:

The best and most effective means of stopping speculation in land is unquestionably for land to come under public ownership. At the same time, this is worth all the zoning by-laws and planning controls in the world as a means of securing properly organized development. This is perfectly well understood in some European countries.<sup>94</sup>

Speculation in land, whatever its other properties<sup>95</sup> and causes, depends on the expectation of profits (and probably of *high* profits) from dealing in land and also on the existence of some uncertainty in the developable land market. The public sector, as we noted earlier, can eliminate much of that uncertainty by using its powers to determine the direction of growth. And, as we discuss more fully below, it can reduce the expectation of private speculative profits by purchasing the land — or key parcels of the land — itself. By banking land in areas of future development, the public sector can save money by buying land before prices have been bid up by speculators; and at the same time it can eliminate or at least reduce two conditions necessary for speculation, thereby cutting it off before it can start.

The City of Saskatoon has emphasized how valuable municipal land banking has been as a way to reduce speculation:

In any event, private developers have acknowledged that the City's role as a major land developer has had a restraining influence on the price of subdivided land. In turn, this had an understandably restraining influence in the general level of the price of raw land in the rural area surrounding Saskatoon. Indeed, it could be reasonably claimed that in this area there is virtually complete absence of *major* land speculation — and a limited interest manifested by private land developers . . .

<sup>92</sup> John Elson, quoted by Clayton Sinclair, "Land developers' new rival", *Financial Times of Canada* (June 12, 1972). Mr. Elson, however, neglected our second point, i.e., that government can purchase land more cheaply than private business when there are hold-outs; because government, unlike private enterprise, can expropriate land for a variety of purposes.

<sup>93</sup> Land banking, however, can also be used for speculative purposes; the purchaser can buy a large parcel of land, keep it undeveloped and off the market, wait for prices to rise in surrounding areas for even help to increase these prices by keeping his land off the market) and then sell the land at an inflated price.

<sup>94</sup> G. W. R. Bryant, *op. cit.*, p. 117.

<sup>95</sup> As noted in the section on the Canadian Development Framework, there is some debate about whether or not speculation is a problem and about how it operates. It was also pointed out that, whatever the theoretical debate, many authorities agree that there is unquestionably considerable speculative activity in and around such rapidly growing areas as Metro Toronto.

The price of land to the home owner is restrained and protected from inflationary pressures arising out of land speculation.<sup>96</sup>

Saskatoon is unusual in Canada in that, rather than using profits from its land-trading to reduce taxes, it has reinvested its money in land. City officials developed considerable expertise in land trading and, as a result, they were able to compete successfully against private developers. In the late 1960's, some 90 – 95% of all new subdivisions on fringe land were on City owned land. (The City only developed infrastructure to its own land.) As a result, speculation has been virtually wiped out and the cost of servicing land has been low (since "gold plated" services, which many municipalities require private developers to provide, have not been provided by the municipality of Saskatoon.) One possible disadvantage of the Saskatoon system is that the City sells its land. This means that the City loses control over the land and this may lead to speculation in the future.

The third way public land banking can lower land costs is by adopting a non-profit, or limited-profit, approach to land development. This approach is, of course, not generally adopted by private business although it may be adopted by private non-profit corporations.<sup>97</sup> In fact, according to the Dennis Report, major developers make most of their profits from the land being developed, not from its servicing and development:

Building firms are becoming larger and more bureaucratic. Their primary concern is the development and marketing of land. The profits made on the construction side are minimal, land profits are high.<sup>98</sup>

Stockholm is a good example of a city which has adopted a non-profit philosophy by setting its lease fees just high enough to amortize short-term loans taken to finance the raw land acquisition and servicing prior to leasing.<sup>99</sup> Saskatoon, on the other hand, does take a profit on its land sales, which it has used to finance some public works and to purchase land.<sup>100</sup> Edmonton, which is relatively new to land banking and is still formulating its policies, seems to be planning to combine the non-profit and limited-profit approaches. The earlier general description of the Mill Woods Project pointed out that this project is intended to "meet social as well as economic objectives". There will be a certain amount of subsidized housing in the project; and the final price of land for other housing will depend on a number of factors:

Therefore, the establishment of a land value for sale purposes is an item which is arrived at by combining the prime objectives of the program (lower cost housing) with:

- the effect pricing policies will have on other areas,
- the generation of funds for other land programs;
- the local economic situation with regard to availability of mortgage funds;
- the volume of serviced and serviceable land for housing in the City;
- the demand for housing of various types; and
- the economic capabilities of the home buyers and tenants.

<sup>96</sup> The City of Saskatoon, *General Submission*, *op. cit.*, p. 4.

<sup>97</sup> See for example, Walter Stewart, "Here is that cheap house — if you buy into a co-op and forget about a profit," *Toronto Star* (February 1, 1972).

<sup>98</sup> Dennis and Fish, *op. cit.*, p. 7.

<sup>99</sup> Passow, *op. cit.*, p. 186.

<sup>100</sup> The City of Saskatoon, *Land Policy in Saskatoon*, *op. cit.*, p.4.

The problem then is not a simple maximization of investment as might be the case within a competitive private corporation. In the early stages, supply and demand factors cannot be relied upon as demand will likely exceed capability to supply.<sup>101</sup>

In practice, 300 single family lots had been sold by mid-1972, and 350 more were expected to be marketed by the end of 1972. The selling price has been based on a front foot charge composed of a land cost portion and a local improvement portion. (i.e., direct recovery of servicing and carrying costs). The cost of a serviced 50 foot lot in Mill Woods is approximately \$5,500, compared to approximately \$8,500 to \$9,000 for similar lots in other developing areas within the City. There have therefore been reductions in land costs within the project itself. Thus far, however, not enough Mill Woods lots have been sold to effect reductions in single family lot prices in other parts of the City; but it is expected that in 1973, when at least 1,000 lots will be marketed in Mill Woods, the project will help to lower the general single family lot price in the City.<sup>102</sup>

The City of Regina, Saskatchewan, another Canadian city which operates a land assembly and land banking program, has also adopted a mixed approach to profit-making. The Regina land program has had an uneven history. From 1904 through World War II, Regina purchased and owned large amounts of land. After the War, when the City was in fact the major land owner, Regina experienced a period of rapid growth, during which it sold much of its land to private developers. Today, the City is again operating a land banking program. Regina now owns 990 acres of vacant industrial land, 146 serviced residential lots and 920 acres of unsubdivided residential land (of which 383 acres are owned jointly with the provincial and federal governments). The City sells industrial land at "fair market value" and, until 1968, sold residential land at approximately the same price as the private market. In 1968 the City started a program of selling some lots at lower prices to enable low and moderate income families to buy their own homes. (The 1971 pricing policy was \$38 per front foot plus \$100 per lot for underground wiring, with pavement provided by local improvements. Private lots were selling for between \$60 and \$100 per front foot.)<sup>103</sup>

According to local officials, Regina has been quite successful in ensuring that there is an adequate supply of residential and industrial land and in stabilizing land prices:

In terms of assuring an adequate supply of land for residential and industrial development, the City's policy of land acquisition has been successful. It is unlikely the City will be faced with a shortage of land if this policy is continued in the future, or that land prices will rise disproportionately higher than current market values.<sup>104</sup>

Finally, public land banking can help to lower (or stabilize) land costs by introducing, or maintaining, competition in a local urban land market.

The Lithwick Report underscored this advantage:

Two major aspects of the demand-supply problem emerge in the reports from almost all the metropolitan areas. The first problem is created by land

<sup>101</sup> "Development Objectives - Economic", *Mill Woods Development Concept, op. cit.*

<sup>102</sup> W. H. Thoman, Project Economist, Mill Woods Project, letter dated July 31, 1972.

<sup>103</sup> *Historical Background - Land Purchase and Assembly in Regina and The City of Regina's Participation in the Land Market*, enclosed in a letter dated July 7, 1972, from Harry Heimark, Director of Planning, Regina.

<sup>104</sup> Harry Heimark, Director of Planning, Regina, letter dated July 7, 1972, p.2.

speculation, which, if in the hands of a few developers or landholding companies, can provide sufficient market power to create even greater scarcity of building land. Furthermore, as developments become larger in scale, individual companies tend to concentrate their holdings in particular parts of a city, thus encouraging monopolistic situations. A number of provincial housing agencies and municipalities are trying to ameliorate this situation by establishing publicly owned land banks. As long as they follow a policy of selling lots at or near market price, they will not in fact reduce prices, but if this is done on a sufficiently large scale, they may well stabilize them. There is insufficient evidence to say what the effective scale of public involvement can be, but it may be noted that in Regina where land costs are reasonably under control, the city is marketing 25% of the building land.<sup>105</sup>

Saskatoon, Regina and Edmonton have all used their land banking programs to do this. Saskatoon, which in 1968 owned about 28% of the area of the City, has stated:

The City of Saskatoon has not tried to create a land development monopoly through its holdings or purchases but rather has tried to maintain a dominant position in order to be able to set standards which private developers are expected to meet.<sup>106</sup>

Regina officials support the idea of a mixed public-private land ownership pattern, which they believe lowers the over-all price of land:

We are of the opinion in the City of Regina that a mix of privately owned land and government owned land is desirable. It appears that government ownership tends to stabilize land prices within the City because of the lack of profit motivation in the sale.<sup>107</sup>

And Edmonton, which was faced with a situation in which land prices were skyrocketing while private interests controlled land in the expected path of development, has indicated its intention to reintroduce competition into the land and housing market:

In the mid-1960's the supply of serviced land for suburban housing was declining and the cost of land was increasing dramatically. The City had no way of guaranteeing the maintenance of an adequate supply. Land in the declared expansion areas was under private ownership and servicing depended on private sector decisions. The decision to establish a new direction of growth was essential if land for housing was to be available at uninflated value.

The rate of development will be influenced by many factors but of primary importance will be real estate market conditions and the status of the economy. As one of the main economic objectives is to reduce the general price of housing through competitive marketing techniques, the development of Mill Woods must maintain a continual supply of building lots ahead of demand.<sup>108</sup>

The Ontario Housing Corporation has also used its land development programs to reintroduce competition into the local land markets.

<sup>105</sup> Lithwick, *Urban Canada, op. cit.*, p. 157.

<sup>106</sup> City of Saskatoon, *Land Policy in Saskatoon, op. cit.*, p. 5.

<sup>107</sup> A. Bruce Smith, City Manager, Regina, letter dated July 4, 1972.

<sup>108</sup> "Development Objectives - Economic", *Mill Woods Development Concept, op. cit.*

In 1972 the Dennis Report found that the six major developers in ten of the twelve cities investigated own at least half – and in several cases, almost all – the residential land expected to be needed for residential purposes over the next decade.<sup>109</sup> In cases like these, the reintroduction of competition into local markets would be of particular importance.

To do this, the city or public agency does not have to own *all* the land. It only has to own enough land to make sure that there is a steady flow of lots and that the city can pose a constant threat of flooding the market with low price lots if private developers try to sell their lots at too high a price. Saskatoon, for example, owns (by itself or jointly with the provincial and federal governments) about 28% of the land in the City.

A healthy side effect of public land banking would be the help it would give to small building firms, thus allowing competition to be maintained in the building market. Under the present system, in some areas where land prices have reached very high levels, small builders have been forced out of the development business because they cannot afford to purchase and hold the lots needed for their buildings. While public land banking would no doubt have an adverse effect on speculators and developers who make large profits from land, it could well have a beneficial effect on small builders and larger developers who do not expect to make money from land; for public land banking would relieve them from having to buy and hold land so that they can build.

One thing that Canadian land banks have *not* tried to do, is drastically reduce land values. The Ontario Housing Corporation could have sold land far below market value (while still covering costs) in a number of projects. But, like other agencies, OHC has been reluctant to upset the “stability” of the market – a stability which is frequently at a high level. And Saskatoon, while saying that it has lowered over-all prices, sells its land for a profit, fearing that the bottom would drop out of the market if it did otherwise:

If this was done (i.e., if land was sold at cost) with City-owned land in Saskatoon today, it would require a drastic reduction in the retail price of subdivided land. Land currently being sold for \$25 – \$30 per front foot (aside from services) could conceivably be sold for as little as \$7 – \$10 per front foot. This would have an interesting side effect of probably, and promptly, putting all remaining private land developers out of business and substantially modify all the operations of the municipality as a sole operator.<sup>110</sup>

In other words, land banking has been used to modify and temper private enterprise – not to eliminate it.

*Public land banking would promote more equitable distribution of profits from land.*

The third major argument in favour of public land banking is that it provides a mechanism for more equitably distributing profits derived from urban land development. A corollary of this argument is that it can generate public revenue. The basic idea is that most of the value of urban land is derived from its being in *demand* for a variety of uses by a concentrated population and from the land undergoing a variety of *improvements* (such as the building of sewers or highways) which are paid

for by the public at large through taxes, not by the individual property owner. Usually neither of these factors influencing land value are the result of individual action; and yet in North American society, the property owner is, to a large extent,<sup>111</sup> allowed to reap these “windfall profits”. Some land banking advocates argue that the general public, not the individual property owner, should receive the profits, and that public land banking and ownership is an effective and appropriate method of doing this. This “social equity” argument has been well presented by planner G. W. R. Bryant:

But one finds few American voices ever raised to ask whether it is right and proper for private owners of land to make profits out of improvements build at public expense. This important question of “betterment” is rarely faced in America. It is usually taken for granted, that if a freeway or a bridge or any other man-made modification of existing accessibility is brought about, then private individuals have every right to make windfall profits out of it . . .

The value of land falls into at least two distinct, and separate categories – firstly, the value for its existing use, and secondly, its value for development . . .

A strong case can be made for holding that the element of development value in land should not be regarded as private property, since it accrues out of the general development of the community. This in fact was, the logical basis of the proposals of the Uthwatt Committee . . .<sup>112</sup>

The Committee suggested that the logical solution to the problem would be public ownership of all land, but refrained from suggesting this on the ground that it would be too controversial. But even so solid a journal as the *Economist* (March 18, 1944) thought the Uthwatt proposals too timid in this respect.<sup>113</sup>

Bryant does not share the qualms of the Uthwatt committee; he strongly advocates public land banking and public ownership of some land as a way for the public to capture the increased values.

This social equity argument has been one of the major theoretical underpinnings of European planning in general and the Swedish and British schemes in particular. Ann Louise Strong, in her book on planning in five foreign countries, emphasized that public land ownership has been a key element in almost all successful European planning and that one of the advantages of the leasehold system usually adopted there, is that “the public can secure the altered use – as well as increments in land values – through negotiation of new lease terms”.<sup>114</sup>

One of the purposes of the leasehold system which Stockholm operates has been to ensure that land value increments “benefit the city and not merely the private developer or owner”.<sup>115</sup> How successful has the Stockholm land bank been in capturing these increases? There seem to have been two areas in which it has been very successful. First, the City owns vast tracts of land which have increased in value as urbanization has occurred. For example, in 1931 the City took title to Värby – 2,550

<sup>111</sup> Some of the profit is indirectly captured by capital gains taxes and property taxes. But there are a variety of tax breaks and time lags involved with taxing schemes; and, in the case of developing land for residential use, the tax costs are passed along to the home buyer, while land profits are largely kept by the developer or seller of the property.

<sup>112</sup> A British committee, 1942, set up to investigate payment of compensation and recovery of betterment, possible ways of stabilizing land prices, and an equitable basis for acquisition or expropriation of land by a public authority.

<sup>113</sup> G. W. R. Bryant, *op. cit.*, pp. 111, 112, 113.

<sup>114</sup> Strong, *op. cit.*, p. xxxii.

<sup>115</sup> Passow, *op. cit.*, p. 181.

<sup>109</sup> The Dennis Report, *op. cit.*, p. 324.

<sup>110</sup> The City of Saskatoon, *General Submission, op. cit.*, p. 4.



acres of land located 12 kilometers southwest of the city centre – for about \$120,000 (an unadjusted price based on a rate of 5 kronor to a dollar) or about one cent a square meter. In the late sixties when it began to develop Värby, Stockholm paid \$47,000 for just 9.6 acre tract. Land values have obviously increased – and therefore the assets of the City have also increased. Second, the City received revenue from its residential and industrial leases. This revenue increases as the value of the land increases since long-term leases are re-negotiated periodically. The 1966 housing rent yield was twenty-three million kronor (\$4,600,000); and the 1967 industrial revenue was about \$2,000,000.<sup>116</sup>

Ebenezer Howard, the father of British new towns, was concerned with ensuring that the land profits resulting from urbanization be returned to the community. Communal ownership of the land for new towns was therefore one of the major principles of Howard's "garden city".

Perhaps no difference between town and country is more noticeable than the difference in the rent charged for the use of the soil. Thus while in some parts of London the rent is equal to £30,000 an acre, £4 an acre is extremely high rent for agricultural land. This enormous difference of rental value is, of course, almost entirely due to the presence in the one case and the absence in the other of a large population; and, as it cannot be attributed to the action of any particular individuals, it is frequently spoken of as "unearned increment", i.e., unearned by the landlord, though a more correct term would be "collectively earned increment".

The presence of a considerable population thus giving a greatly additional value to the soil, it is obvious that such increment of value may, with some foresight and pre-arrangement, become the property of the migrating people.

Such foresight and pre-arrangement, never before exercised in an effective manner, are displayed conspicuously in the case of Garden City, where the land as we have seen, is vested in trustees, who hold it in trust (after payment of the debentures) for the whole community, so that the entire increment of value gradually created becomes the property of the municipality, with the effect that though rents may rise, and even rise considerably, such rise in rent will not become the property of private individuals, but will be applied in relief of rates. It is this arrangement which will be seen to give Garden City much of its magnetic power.<sup>117</sup>

Since the time of Howard, the British have continued to grapple with the problem of how society can capture the "unearned increment" from land development. A variety of groups have studied the question and a variety of formulae for the "betterment levy" – i.e., a special capital gains tax, designed to capture for the State increments to the development value of land – have been adopted.<sup>118</sup> But the public assembly and ownership of land for new towns, adopted in the British new town policy,<sup>119</sup> appears to provide a simpler and more direct mechanism.

<sup>116</sup> *Ibid.*, p. 186. No figures were given, however, for the administrative costs of the program.

<sup>117</sup> Ebenezer Howard, *Garden Cities of Tomorrow* (originally 1898), (Cambridge, Massachusetts and London, England: The MIT Press, 1965), pp. 58, 59.

<sup>118</sup> See Dennis Hettleron, "The British Land Commission" in L. D. Feldman & Associates *A Survey of Alternative Urban Policies* (Ottawa, 1971), p. 81ff.

<sup>119</sup> Osborn and Whittick, *op. cit.*, p. 117. The authors point out that while no political parties have questioned the principle that each new town should remain in public ownership, there has been some debate about how the financial surpluses should be used.

*Leasing*, rather than selling, municipally owned land seems to be the preferred method of land disposition because it provides both a greater measure of control over the use of the land and longer term revenue, which can increase as the land value increases. *Sale* of municipal land which had been purchased before its development value increased as a result of urban demand is, however, another way in which at least part of the "unearned increment" can be returned to the public. But, obviously, if the value of the land continues to rise after the municipality has sold it, the public will not gain all the increment. Both Saskatoon and Regina have adopted policies of selling their land; while Edmonton, although selling most of its lots, has begun a small pilot project of leasing 25 lots in Mill Woods. In Saskatoon a "substantial" profit has been made from its land activities. The money from land sales has been used to build public facilities and to finance additional land purchases. The City feels that both individual lot purchasers and the community-at-large have benefited from the land program. Money from land sales in Regina has been ploughed back to finance additional land purchases in order to continue a program which the City feels has had great benefits. And revenue from leases and sales in Mill Woods is expected to be used to acquire land in other parts of the City, including perhaps park sites in older, disadvantaged areas. It is interesting to note that Canadian cities have emphasized the planning and land price arguments rather than the social equity argument. Nevertheless, it seems apparent that the social equity argument could well be applied here.

The social equity argument deserves to be taken further than simply saying, as some of those quoted earlier have implied, that they who improve the land and create the demand should reap the profit. If the argument were left at this point, then it would follow that the developer who pays for all the services and promotes his subdivision or new town in such a way as to attract people to a new area (that is, to create a new urban demand) should capture all the profits. But the social equity argument is, or in our opinion, should be, predicated on the idea that *land is a community resource* – like water or air – and not a commodity – like toothbrushes or toasters. As a community resource, it should not be squandered or sold off to the highest bidder, but should be used with care. And benefits derived from land should be shared by the community-at-large. This view of land as a resource rather than a commodity appears to be gaining support:

We have had quite a shift of opinion in recent years, and people are saying things they wouldn't have even breathed a few years ago . . . There are people who see the possibility of treating land as a natural resource and not as something to be exploited for the speculative earnings of a few . . .

It may be that the time is coming when public opinion will accept the government getting involved in land assembly and land development . . . I suggest this is the way we will probably have to go.<sup>120</sup>

#### The arguments against public land banking

The most frequently voiced arguments favouring public land banking have been grouped under three major headings – planning, land price control and social equity. Obviously, there has been considerable opposition to large-scale public land assembly and land banking, particularly from large private land developers in areas of rapid urban growth. What are the major arguments against it?

Probably the most frequently voiced argument *against* large scale public land assembly and land banking as a method of lowering land costs is that *it is unnecessary*:

<sup>120</sup> Paul Goyette, (former) managing director of the Ontario Housing Corporation, quoted in Walter Stewart, *op. cit.*

- even restrictive - and that the government need only make more serviced land available in order to lower land prices. If supply is greater than demand, it is argued, the price will be lower.

The one, single course that offers any realistic hope of slowing rising land values and stopping speculation in our growing cities is the provision by government of trunk services and transportation links in sufficiently large suburban areas to create an oversupply of developable land.<sup>121</sup>

While this "solution" might be helpful in some cases, it is not a complete answer, and it ignores three basic factors: that normal market mechanisms are not completely applicable to the urban land market; that there may be negative planning results if the supply of serviced land is increased; and that servicing itself increases the value of the land consequently the pressures for more development.

Knowledge of how the land market operates (and of what factors influence land values, and how) is still imperfect. Some authorities argue, quite cogently, that land, particularly urban land, cannot and should not be left to the normal operation of the market. At the most basic level of decreasing price by increasing supply, they argue that the elementary laws of supply and demand simply do not operate because the supply of land, as a commodity unlike sausages or automobiles, is relatively inelastic (i.e., fixed by nature) and cannot readily be increased:

With land, especially land on the fringes of cities, this cannot be done [prices cannot be held down by increasing the supply in relation to demand], for the simple reason that the supply is fixed and limited by nature. This alone is good and sufficient reason for regarding land as a very special commodity which cannot be left to the free and uncontrolled operation of the market. The ordinary market mechanisms simply do not produce the right answer in this field.<sup>122</sup>

Our discussion of the Canadian development framework pointed out that good economics may not always be good planning. Even in those cases, therefore, where the supply of serviced land could be increased, adopting this course of action might have negative planning results. While perhaps alleviating one problem, the high cost of land, other problems might be created. Perhaps, for example the size of the centre city should be limited, not expanded, because the local economy could not accommodate an influx of new people. Or the fringe land is excellent agricultural or recreational land and therefore should not be serviced and developed.

But probably the strongest reason why increasing the amount of serviced land may not be an effective method of lowering land prices is that servicing itself both increases the value of the land (by an amount greater than the cost of the services) and immediately increases the pressures to develop the area. Both of these effects may well reinforce, rather than reduce, the land cost spiral. Beyond this, it is necessary to ask, as we did earlier, who should reap the extra profits resulting from increased demand, servicing and development of land - the private owner or the public at large?

A [second] major argument against large-scale public land banking is that *this is not a proper role for government to adopt*. This is largely a philosophical argument and consequently is almost impossible to discuss usefully here. On the practical side, the major thrust of this bulletin has been that not only is public land banking a proper

<sup>121</sup> Frank Summerhayes, (President, Urban Development Institute, Ontario) "Long term guidelines needed for urban change", *Building Development* (vol. 11, no. 6, June 1972), p. 52.

<sup>122</sup> G. W. R. Bryant, *op. cit.*, p. 110.

role, it is a necessary one if urbanization is to proceed in a more orderly, less harmful way than it has in the past.

A third major argument against public land banking is that *it would cost too much*. Undoubtedly it would entail a large initial outlay of funds. But, as has been demonstrated by a number of land banks (in Canada and abroad), land banking can not only be self-sustaining, it can make a profit. If it is undertaken on a large enough scale, and if the public agency is allowed to engage in profit-making ventures as well as non-profit-making ones, the program can be an economic one. Finally, we must take into consideration the subsequent costs of doing nothing.

A fourth argument against public land banking is that *it would reduce local revenues because publicly owned land would be removed from the tax rolls*. This does not necessarily happen, since publicly-owned lands are not usually allowed to lie fallow, but are leased for a variety of uses, such as farming. Agreements for the lease holder to pay taxes are frequently written into the leases. Furthermore, the leases themselves provide a new form of revenue; and so does the sale of any land if the land is sold when it is needed for urban development.

A fifth argument against land banking is that *government is inefficient*. Since government has broader, less easily defined and measured goals than the profit-goal of private enterprise; and since government decisions are, or should be subject to greater public scrutiny and control than private business decisions, government may appear to be less efficient. This seems to be a possible, but not a necessary, condition. Given the proper administrative structure, properly-defined goals, and appropriate ways of measuring success, government should be able to operate "efficiently". Furthermore, as we have discussed earlier, the public sector has certain potential advantages over the private sector in land development: it can eliminate much of the risk involved by determining the direction of growth; it can expropriate land, thus preventing hold-outs from raising land-assembly costs; and it has lower holding costs.<sup>123</sup>

A sixth argument against public land-banking is that *by taking the profit incentive out of land, it will deprive the land development industry of creative leadership and innovation*. This is as much a philosophical as a practical argument since it is about what motivates people. Money is not the sole motivation for all human endeavour, and private industry does not have a monopoly on innovation. A scientist in the public employ, for example, can be rewarded as much by honour and prestige as by money. There is no reason why innovation cannot be recognized and encouraged by government.

Finally, a seventh argument against public land banking is that *the desired goals can be attained by other means*,<sup>124</sup> such as development controls, legal controls, fiscal

<sup>123</sup> The success of Saskatoon officials has demonstrated that the public sector can operate efficiently. The British Land Commission (discussed in greater detail below), however, is a good example of government inefficiency, which resulted largely from an improper analysis of what role the Commission would have to play and insufficient attention being paid to the powers and special staff skills necessary for the Commission to be able to play that role successfully.

<sup>124</sup> The authors of *Suburban Land Development*, *op. cit.*, p. xiii, concluded that "public land banks are not a necessary prerequisite for orderly land development and should be carefully examined before being considered. While the idea of having a municipality provide the majority of lots required is appealing, consideration must be given to the pricing system to be followed, the source of expertise to operate the program, and the means of financing the land holdings. Based on the evidence available, the results obtainable under a municipal land bank program could be achieved under the present system incorporating the recommendations indicated above. Further, the recommendations mentioned above are applicable throughout the entire urban zone whereas land banking would most directly affect the urban fringe where new development mainly occurs." The British Columbia study, however, did not specifically investigate land banking. Some of the other details mentioned are discussed in the following section of this report.



policies and so on. This may be true. But a number of investigators who have looked into alternative mechanisms have concluded that public land assembly and land banking is a crucial tool for controlling urban development, ensuring the implementation of plans, lowering or stabilizing land prices, lowering housing and public services costs, and sharing "unearned increments" resulting from urbanization. It is certain that any land banking program must be supplemented by various other mechanisms, and that the precise mixture will depend on what precise goals the policy is designed to achieve.

Public land assembly and land banking is hardly a cure-all for urban ills. It is, however, a highly versatile tool that can be used to accomplish a number of objectives at one time. The success of any land banking scheme depends, not surprisingly, on how policy-makers deal with a whole range of operational problems. The final section of this report identifies a number of problems that must be faced, and some of the prerequisites of any successful land banking program.

### PUBLIC LAND BANKING – SOME POLICY QUESTIONS

This section deals briefly with some of the major questions facing policy-makers concerned with developing a public land banking policy. This is not a statement of a proposed policy, but an outline of problems. Some obvious prerequisites (such as having adequate funding and a fairly detailed regional plan) are identified. But, in many cases critical questions are asked, without any final solutions being offered; and in other cases, questions are raised and possible alternative solutions are outlined.

#### *What are the goals of the policy?*

A clear statement of the policy goals is an obvious prerequisite for a public land banking policy. The answers to most other questions about public land banking implementation depend on what the goals of the policy are. Will the goal(s) of public land banking be to guide urban development, to provide low-income housing, to introduce competition into the land market, or to spread land profits more equitably? Will the goal(s) be to save public money by lowering the cost of public services or to generate public revenue by making a profit on land transactions, a profit which is applied to the general revenue? Will the land banking be used to provide "residual" services (services, like natural parks or low-income housing, which are usually not profit-making and are usually not provided by the private sector) or to provide the basis for large-scale public land and urban development; to co-ordinate all present (rural and urban) public land purchasing programs or to purchase only land needed for urban development? Will the land banking be used to attain provincial goals or municipal and regional goals? Will the land banking be profit-oriented or non-profit, and so on.

Before specific administrative structures can be designed, financing arrangements worked out, and many other procedural details decided upon, these questions must be answered. For example, the structure needed for performing a limited co-ordinating function would probably be very different from a structure needed for performing an extensive land purchasing, managing and developing function.

It is likely that there will be several goals of a public land banking policy in Ontario and that flexibility, therefore, will be essential in a number of areas, such as financing arrangements and powers given to the administrative structure(s) set up to operate the programs.

#### *How should a public land banking policy be administered?*

There are a great number of possible administrative structures that could be set up. Among the major questions to be addressed are: what level of government should operate the land banking? (It could be administered by the federal, provincial, regional, or municipal level or by a combination of these); and what powers should the administrative structure be given? The answer to these questions depend largely on the purpose of the land banking.

There are a number of foreign and domestic alternatives which show how a land bank *could* be operated. In Britain there are two different types of structure that might be of interest to policy-makers here. First is the new town development corporation. British new town policy is primarily designed to attain national goals; and basic policy decisions about where new towns will be located, how large they will be and so on, are made by the national government. The specific implementation, however, is done by ad hoc new town development corporations. Normally one is set up for each project, and appointed and financed by the Ministry of Housing and Local Government. Subject to approval by the Ministry, these corporations are given broad powers to acquire sites, by voluntary or compulsory purchase; to plan and to over-ride local planning controls; and to undertake all the necessary kinds of development.<sup>125</sup> These corporations have apparently been quite successful.

The second British structure is the British Land Commission,<sup>126</sup> created by the Labour Government in 1967 and dissolved by the Conservative Government in 1970. The Land Commission had two basic functions: to administer the betterment levy and to act as a state-owned land trading corporation, having the powers to buy (by voluntary or compulsory purchase), develop and dispose of land to either private or public sector developers. The Commission was not designed as a land nationalization vehicle or as a land banker. It was created as a means of facilitating development where planning permission for such development was in force. It was supposed to act decisively against private land owners who were hoarding land of strategic value and who were, therefore, inhibiting development. The Commission was not given power to override local planning decisions; and was expected to work closely in co-operation with local authorities.

In short, as a land trading corporation, the Commission was to work hand-in-glove with local authorities and private sector developers to secure comprehensive development of the right land, in the right location and at the right time. It was to correct, not abrogate, the operation of the land market. Like the land planning system, it assumed the continuation of the system of private ownership of land.<sup>127</sup>

According to Professor Hefferon: "As a land trading corporation, the Commission was a spectacular failure".<sup>128</sup> The reasons for this failure are instructive. First, the Commission could not act effectively against land hoarders in the few cases where hoarding of land could be identified as being of strategic importance for development. The compulsory purchase procedure, even when supported by the local planning authority, was cumbersome, costly and time-consuming. Without a stream-lined

<sup>125</sup> Osborn and Whittick, *op. cit.*, and Clapp, *op. cit.*

<sup>126</sup> This discussion is based on two sources: Dennis C. Hefferon, "The British Land Commission" in L.D. Feldman & Associates, *A Survey of Alternative Urban Policies* (Ottawa, 1971), p.81 ff., and Dennis C. Hefferon, *The British Land Commission and the Betterment Levy – Unpublished study prepared for Central Mortgage and Housing Corporation, 1972.*

<sup>127</sup> Dennis C. Hefferon, *The British Land Commission and the Betterment Levy, op. cit.*

<sup>128</sup> *Ibid.*, p. 5.



compulsory purchase procedure, the Commission would have to rely heavily on acquisition by private purchase. But, as Professor Hefferon points out, "its organization, powers and staff did not allow it to move effectively and speedily in this way."<sup>129</sup> The Commission, and the legislation establishing it, were based on the wrong premise. The major factor limiting the supply of land for development was not large-scale hoarding by private developers, but restrictive planning by local authorities. The Commission, therefore, rather than working with local authorities, often found itself confronting them, with inadequate powers to do so successfully (they could not override local planning decisions).

Furthermore, the Commission could not act effectively as a land trading corporation. The commission was too highly centralized to be able to take speedy decisions. Its staff was appointed according to civil service regulations and many were transferred from other departments. Only a very small number had had any experience with land acquisition, management and disposal techniques. This lack of expertise, coupled with a lack of knowledge about local conditions, prevented the Commission from being able to operate efficiently. Finally, as a public agency, the Commission, as a matter of policy, could not use acquisition methods that are frequently used by private developers. This, too, put the Commission at a disadvantage.

Despite the failure of the British Land Commission, Professor Hefferon concludes that:

the Commission's failure should not be taken as proof of the alleged futility of establishing a State agency to act as a land trading corporation. On the contrary, it demonstrates the care which must be taken in identifying goals, creating structures, defining powers and making the agency operational. The relative success of development corporations created under the New Towns Act demonstrates the potential of State operated land vehicles in achieving significant results.<sup>130</sup>

Canadian policy-makers should keep the lessons of the British Land commission in mind when they frame a Canadian policy.

Most of the land banking operations investigated in this report are operated at the municipal level. There are a number of municipal variations. Stockholm operates its land bank by a municipal land purchase corporation (STRADA) and a city real estate board which sets policy. Regina operates its land bank through a municipal department, the Building and Civic Properties Department, whose land buying and selling actions must be approved by City Council. Edmonton also operates its land bank, the Mill Woods Project, through a City department, the Planning Department. And Saskatoon operates its land bank through a committee of Council, the Planning and Development Committee. Each of these land banks, although initiated and administered at the local level, has received some funding from upper levels of government.

Each of the above municipal examples involves a fairly discrete urban area. In Ontario, however, there is a complex urban system with many areas of overlapping urban influence. It is sometimes difficult to decide where one urban centre stops and the next begins. For this reason, the public land banking policy should probably be provincial in orientation, although certain functions could probably be given to regional government. Perhaps there should be a two-tier system, with a *central group* responsible for broad policy-making and allocating funds to *regional groups* which are responsible for local adaptation and administration.

<sup>129</sup> *Ibid.*, p. 11.

<sup>130</sup> *Ibid.*, pp. 13-14.

What powers should the land banking agency have? If, as we recommend, it is a multi-purpose land-banking operation, the agency should certainly have the powers necessary to buy, sell, manage and develop land. It should have the power to expropriate land, with adequate safeguards and appeal procedures, for multi-purpose urban development. It should have the ability to act quickly and effectively in acquiring land, so that it can compete with other land traders.

Some argue that the agency should have the power to over-ride local zoning and building laws. (The New York State Urban Development Corporation and the British New Town Development Corporations have this power; the British Land Commission did not, and appear, to have been hampered by this restriction). This power could aid both the swiftness and the quality of the ultimate development, by allowing the agency to overcome obstructive and possibly out-dated local regulations. But, unless there are appropriate safeguards, such powers could also lead to rather ruthless operation and disregard of local opinions.

Some also argue that municipalities should have the power to purchase land outside their present boundaries. This extraterritorial purchase power has been important for Stockholm and Saskatoon and makes sense if the municipality is buying land for future development, much of which will probably occur beyond present boundaries. On the other hand, if the purchasing agent is a provincial department or agency, rather than a municipal one, the power is automatic. And if the purchasing agent is a regional government, the power may be unnecessary if the region already contains large amounts of undeveloped land.

The other powers will depend on what the agency is supposed to accomplish and on the answers to such questions as whether or not the agency will ultimately develop the land; whether or not the agency is supposed to develop policy and should have a planning capability; how the land is disposed of (whether it is sold or leased); whether the operations are to be subsidized, non-profit but self-sufficient, or profit-making, and so on.

#### *What land and how much land should be purchased and banked?*

Again, this depends on the policy goals. But any land banking program must be securely linked to and guided by clear planning goals as set down in a regional plan (or local plan, if the bank is a local one). Ontario is developing such plans, which should facilitate the development and implementation of a land banking program. Any land bank also obviously depends on there being adequate vacant land in the right locations. And finally, the amount of land needed will depend on the purpose of the bank. If the purpose, for example, is simply to acquire land for future recreational purposes, then only prime recreational land should be purchased; if the purpose is to introduce competition into the land market, perhaps 20% to 30% of the land should be publicly-owned; and if the purpose is to develop and maintain public control over entire new towns, then sites for entire new towns should be purchased.

#### *How should the public land bank be financed?*

Although details of a financial plan are not specified here, there are a few broad principles that can be stated. There should be *adequate funding* for the purpose stated. This seems too obvious to be mentioned, but too often grandiose schemes are announced while only paltry funding is appropriated.

*Sustained and relatively predictable funding* is essential. Land banking is a long-term operation and must therefore have long-term funding. It cannot operate successfully if the amount of funding rises or falls unpredictably from year-to-year.

*The operation should be large enough so that transactions can be balanced against each other.* This is necessary so that each individual transaction does not to break even or make a profit. A profit from some transactions can off-set (or all) losses on others. Stockholm, for example, aggregates the land costs so that rents on particular sites do not have to return the acquisition costs to the City.<sup>131</sup> *Several levels of government* will probably be involved in funding land banking. This has been the case in each of the Canadian land banks discussed in this report. The Mill Woods Project would have been impossible without provincial support (federal support was also obtained some time after the project was initiated by the city and the province). It is useful to note that Edmonton is purchasing the land from the Alberta Housing Corporation over the next 15 years so that ultimately the City will own the land and the province will recover its investment. Edmonton is planning to set up a fund for land acquisition in other parts of the city. Saskatoon has some land which it has purchased on its own and some which it has acquired jointly with the province and federal government. The City criticized the Central Mortgage and Housing Corporation for being too rigid in applying nation-wide rules; for example, they recommended that the pricing policies should be more flexible.<sup>132</sup> (The City should be allowed to sell above cost as well as at cost, as specified in the legislation.) Regina finances its land bank both by a special fund established for land acquisition (to which all funds from sale and lease of City-owned property are channelled) and by joint projects.

Certainly, if a provincial land banking program is established in Ontario, flexibility in financing will be essential in order to recognize regional differences.

#### *Should the land be sold or leased?*

How the land will ultimately be disposed is a critical question. Leasing land is obviously a more effective way of controlling the use, adapting to changing needs and ensuring that over time, the public will benefit from increased land values. The Ontario Housing Corporation has also found that its land lease program<sup>133</sup> has been effective in making home purchase possible for moderate income families. Sale, however, has been the normal method of land disposal in Canadian land banks.

#### *How much will the land sell (or lease) for?*

Setting a pricing policy is another crucial matter. Again, whether the land is sold (or leased) below cost, at cost, above cost but below market value, or at market value, will depend on the aims of the program. If the aim is to provide low cost housing, the land will probably be sold at cost, or even below cost; if the aim is to introduce competition into the land market, the land might be sold above cost but below present market values; and if the primary aim is to generate revenue, the land might be sold at market value. Flexibility will again be a prerequisite, since the land banking policy will probably have several different aims. It is, above all, essential to try to anticipate what effect various pricing schemes will have, and to relate the pricing policies to over-all policies.

#### *How can speculation after the initial transaction be avoided?*

It has been suggested that even if public land banking lowers the cost of land to the first purchaser, at some time in the future someone will make a wind-fall profit by

<sup>131</sup> The City of Saskatoon, *General Submission*, op. cit., p. 4.

<sup>132</sup> Strong, op. cit., p. 40.

<sup>133</sup> In the land lease program people purchase the homes and lease the land. The lease lasts for 50 years and the rent is based on the book value of the land. The lessee has the option, at the end of 5 years, to buy the land at the market value established at the beginning of the lease term. This program lowers the down payment, the monthly payments and the final cost of purchasing housing.

selling at market prices. This assumes that the land will be sold, that the land bank does not lower land costs in general and that the market value is higher than the sale price. These assumptions may not be valid.

The surest way to avoid this type of future speculation, however, is not to sell the land; but to lease it. But if land is sold, rather than leased, this re-selling could be a real problem; and ways of preventing future speculation of this type must be investigated.

*How can the secrecy needed for real estate transactions be reconciled with the democratic desire for openness and public scrutiny of government actions?*

Undoubtedly a considerable measure of secrecy is necessary if speculative land dealing in areas of government land purchase is to be avoided and if the government is to be able to act quickly and efficiently. The Edmonton Mill Woods Project was shrouded in secrecy, and even there speculation was not entirely avoided. This conflict between the need for both secrecy and public scrutiny is a very real one and a very hard one to resolve. Perhaps if the land banking policy is clearly stated and adequate appeal procedures are available, the administrators can be given considerable latitude in implementing the policy, operating in relative secrecy in previously defined areas.

## CONCLUSION AND RECOMMENDATIONS

As this report has shown, urbanization in areas like southern Ontario has been accompanied by many problems — skyrocketing land prices, rampant land speculation, rising housing and public service costs, premature conversion of prime agricultural and recreational land into urban uses, unstructured urban development, and so on. Many of these problems stem from the relative scarcity of urban land and from the roles generally adopted by the private and public sectors in the land development process. Basically, the role of the private sector has been to initiate and carry out urban land development and to make a profit on that development. The role of the public sector has usually been to stimulate private enterprise, to be the developer of last resort, and to provide only negative controls over private development. The short-comings of this approach have been documented in this issue of Civic Affairs.

How can some of the major problems associated with present forms of urbanization be solved? This Bulletin has shown that large-scale public land assembly and land banking schemes, by involving the public sector at an *earlier stage* of the urban land development process, and in a *more positive* and *more active* manner, can alleviate at least some of the problems. It is not a cure-all; but it is a useful tool. Several foreign and domestic land banking schemes have demonstrated the benefits that can be obtained. Among these benefits are: ensuring plan implementation; encouraging comprehensive and flexible planning; including broad social, as well as economic goals in plans; limiting the land cost spiral; lowering housing and public service costs; and distributing urban land development benefits more equitably.

The Province of Ontario, particularly southern Ontario, has been experiencing the pressures and problems of rapid, extensive urbanization. Over the years the Province has been involved in a number of land assembly and land banking schemes, but generally these have been used for separate and distinct purposes — for highways, for general government needs, for parks, for low-income housing. More recently, to judge by the issuance of regional plans such as the Toronto-Centred Plan and by the land assembly project in North Pickering, the Province has apparently recognized the need for a more active, positive government role in urban land development. Unfortunately, the public land assembly and land banking activity is still largely fragmented, limited in scope, and single-purpose. In order to ensure that the regional plans are

implemented, that proper public control is exercised over urban development, and that the general public benefits from the development of land – which should be regarded as a community resource rather than a commodity – the Bureau recommends that *the Province of Ontario formulate and adopt a policy for comprehensive, multi-purpose urban land banking.*

Most other details of the land banking policy, such as the powers to be given to the agency administering it and the financing and pricing schemes adopted, will depend on precisely what the land bank is supposed to accomplish. The Bureau recommends, therefore, that *the goals of the policy be clearly stated and the other aspects of the policy be directly related to these goals.* There are many possible goals, most of which have been outlined by this study. Although the Bureau will not recommend all the specific goals that should be adopted, we do recommend that *the broad goals of a public land banking policy be to control urban development; to limit land, housing and public service costs; and to distribute benefits from land development more equitably.*

Although the policy should be formulated and co-ordinated by the Province, it should recognize possible regional differences in aims and administrative details. The Bureau therefore recommends that *a two-tier system be adopted, with a central, provincial agency being responsible for broad policy formulation and allocation of funds, and regional or municipal agencies being responsible for adapting and implementing the policy in their respective areas.* To make regional adaptation possible, the Bureau also recommends that *there be flexibility in the aims, powers, financing schemes, and pricing schemes adopted.*

While financing schemes are not specified in detail, several broad principles should be adopted. The Bureau recommends, therefore, that *the funding be adequate for the purposes stated; that funding be sustained and relatively predictable; and that the operations be large enough so that transactions can be aggregated and balanced off against each other.*

Finally, although sale of land has been the normal method of land disposal in Canadian land banks, leasing provides greater public control, greater flexibility for adapting to future changes and longer term revenue. The Bureau recommends that *leasing schemes be formulated and adopted for much of the land assembled for urban development.*